DOCUMENT RESUME

ED 281 991 CE 047 061

TITLE	Starting Up Your Own Business in the Hotel and Catering Industry. A Self-Help Guide from the Small Business Service of the Hotel and Catering Industry Training Board.
INSTITUTION	Hotel and Catering Training Board, Wembley (England).
REPORT NO	ISBN-0-7033-0024-5
PUB DATE	82
NOTE	113p.
PUB TYPE	Guides - Classroom Use - Materials (For Learner) (051)
EDRS PRICE	MF01 Plus Postage. PC Not Available from EDRS.
DESCRIPTORS	*Business Administration; Decision Making; *Entrepreneurship; Evaluation Criteria; Evaluation Methods; *Food Service; Foreign Countries; *Hospitality Occupations; *Hotels; Postsecondary Education; Property Appraisal; Site Selection; *Small Businesses
IDENTIFIERS	*Caterers

ABSTRACT

This guide is intended to assist the potential small business proprietor in successfully starting a business in the hotel and catering industry. It is divided into five sections. The first section discusses factors to be considered in making the initial decision of whether or not to seek self-employment in the industry (options, potential enjoyment, personality traits and skills required of successful hotel owners and caterers, and affordability). The next three sections cover the following individual steps in a systematic approach to seeking and selecting a business to match individual requirements: building a model of one's own ideal business (factors, personal circumstances, and procedures in planning the first step); exploring the market (selecting and interviewing an agent, selecting a business to view, planning the viewing, and viewing the business and assessing its potential); and making the decision (factors, affordability of buying and running the business, preparing estimates, and making the final decision). The final section examines the actual acquisition of the business and the professional help available in negotiating the acquisition (including sections on making the offer, instructing a solicitor, dealing with bank managers and accountants, purchasing insurance, hiring a surveyor, seeking other professional advice, going through the handover procedure, and negotiating the purchase in Scotland. (MN)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

ED281991

STARTING UP YOUR OWN BUSINESS

in the hotel and catering industry

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

☐ This document has been reproduced as received from the person or organization originating it.

☐ Minor changes have been made to improve reproduction quality.

• Points of view or opinions stated in this document do not necessarily represent official OERI position or policy.

"PERMISSION TO REPRODUCE THIS MATERIAL IN MICROFICHE ONLY HAS BEEN GRANTED BY

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)."

STARTING UP YOUR OWN BUSINESS

in the hotel and catering industry

A SELF-HELP GUIDE FROM THE SMALL BUSINESS SERVICE OF THE HOTEL AND CATERING INDUSTRY TRAINING BOARD

ISBN 0 7033 0024 5

3

Copyright © HCITB 1982

All Rights Reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means: electronic, electrostatic, magnetic tape, mechanical, photocopying, recording or otherwise, without permission in writing from the publishers.

First published 1982

Hotel and Catering Industry Training Board
PO Box 18, Ramsey House, Central Square
Wembley, Middlesex HA9 7AP, UK

Printed by Hills & Lacy Limited, Reading

Introduction

EVERY business activity involves an element of risk, whether it is the large company launching its latest product, or the small one investing in some new equipment.

Starting up in business on your own, particularly in the hotel and catering industry, can be a considerable gamble . . . especially if you are using your savings, your home and the future of your family as the stake.

This book is intended to help you to reduce that risk and to increase the odds in favour of your future business being successful. The rewards to be reaped from running a successful business in this industry are immense: you can be your own boss, live and work in a congenial atmosphere, see the results of your labour, and the financial returns can be satisfactory; most successful proprietors will tell you that they would not choose any other life.

But successful businesses do not just happen. They require the right combination of leadership, personality, skills and aptitudes, considerable dedication and hard work, perhaps even good luck, but certainly a great deal of thought and careful planning.

Unfortunately the indications are that as many as one out of every two who start in this industry will fail within two years. The Hotel and Catering Industry Training Board has identified that in most cases this is attributable to a failure to consider the whole thing properly before and during the start-up process.

The aim

The aim of *Starting Up Your Own Business* is to help the potential small business proprietor to avoid mistakes, thus increasing the odds in favour of success. This cannot be achieved without much thought and effort. Great emphasis is placed on the need for careful planning and a systematic approach to negotiating the whole start-up process from the

original idea to the successful acquisition of a business that will be the right one for you.

The structure

There are five sections. The first section, *The right type of business* presents the factors to be considered in making the initial decisions on whether or not to seek self-employment in this industry.

The next three sections: *Building a model of your ideal business*, *Exploring the market* and *Making the decision*, take you through a systematic approach to seeking and selecting a business that will closely match your own circumstances and requirements.

The final section, *Negotiating the purchase*, examines the actual acquisition of the business and the professional help available to you in negotiating this vital step.

Read through the whole book initially to gain an overall picture of the course of action it recommends, which is summarised graphically in Table 1.

If you then wish to adopt this approach, follow *Starting Up Your Own Business* section by section, using the checklists to ensure that you are properly prepared before moving on to the next section.

Contents

The right type of business

What are the options? 2
Would we enjoy running this type of business? 4
Would we fit in with running this type of business? 6
Would we be capable of running this type of business? 8
Can we afford to have this type of business? 10
The options 12
Considering the options 16

Building a model of your ideal business

The factors 20
Your own circumstances 23
Planning the first step 27

Exploring the market

The agent 36
Selecting an agent 37
Interviewing the agent 39
Selecting the businesses to view 42
Planning to view 45
Viewing 50
Assessing the potential 54

Making the decision

What are the factors? 64
The first three questions 65
Can we afford this business? 66
Can we afford to buy it? 67
Can we afford to run it? 71
Preparing your estimates 73
The decision 79

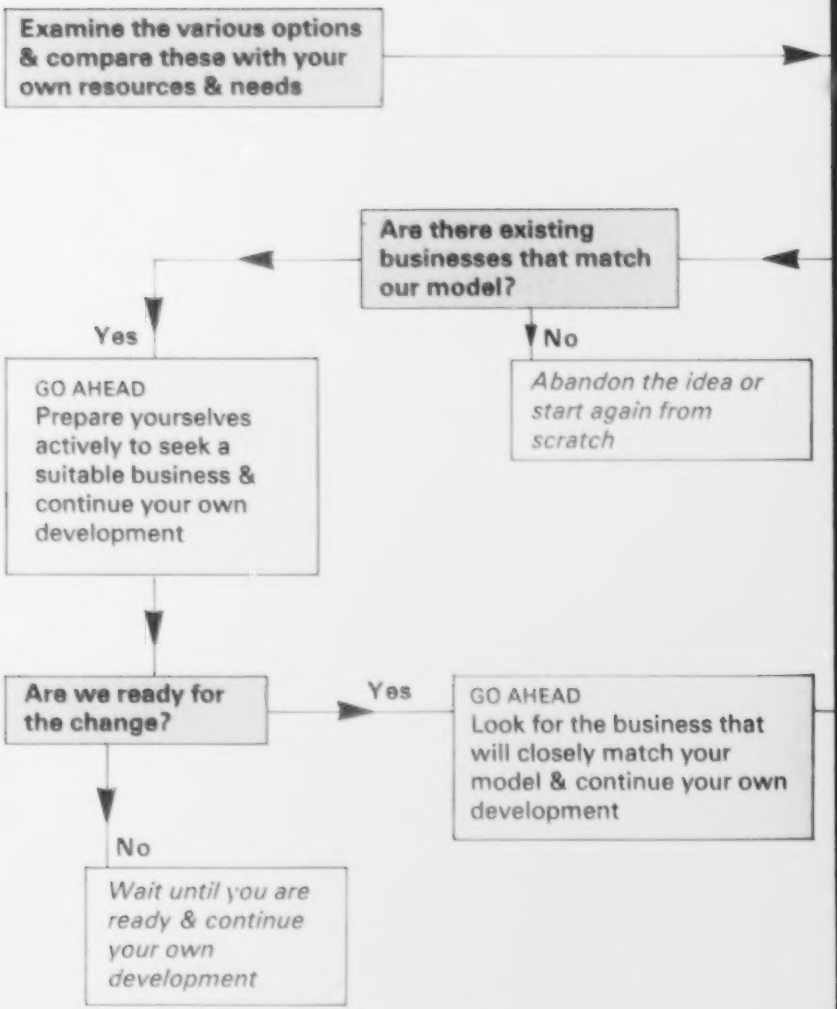
Negotiating the purchase

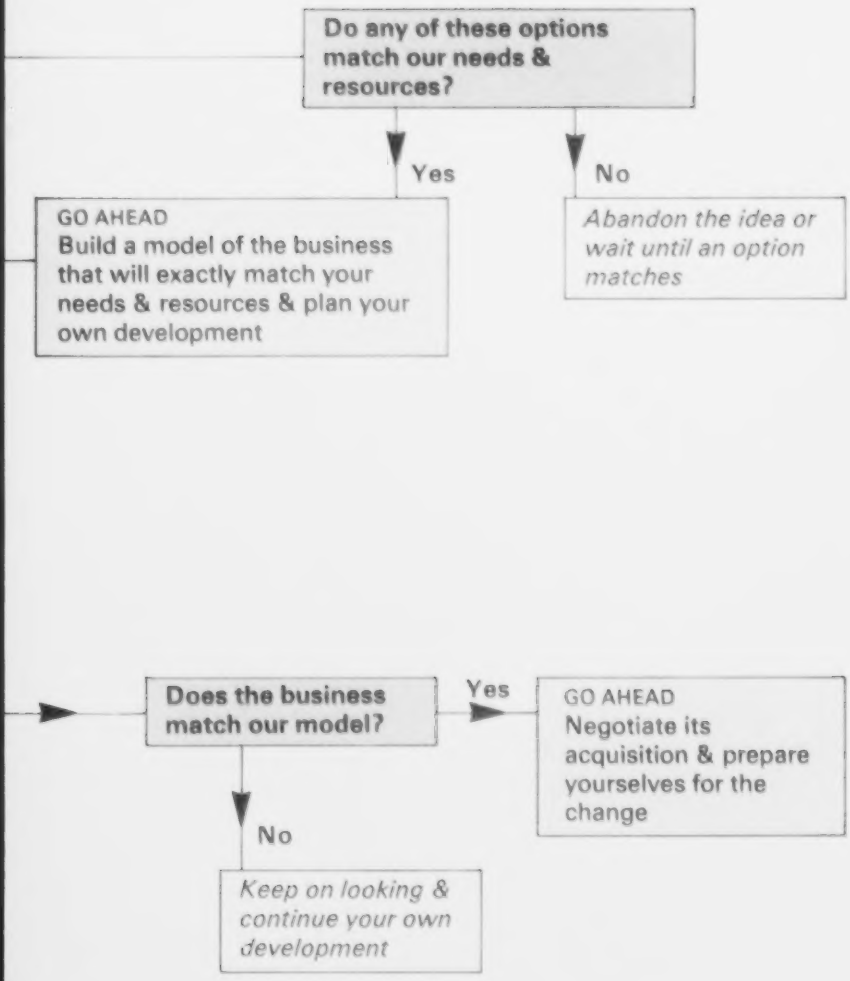
Making the offer 82
Instructing your solicitor 83
The bank manager 86
The accountant 90
Insurance 91
The surveyor 92
Other professional advice 93
The handover 94
Negotiating the purchase in Scotland 98

Conclusion 102

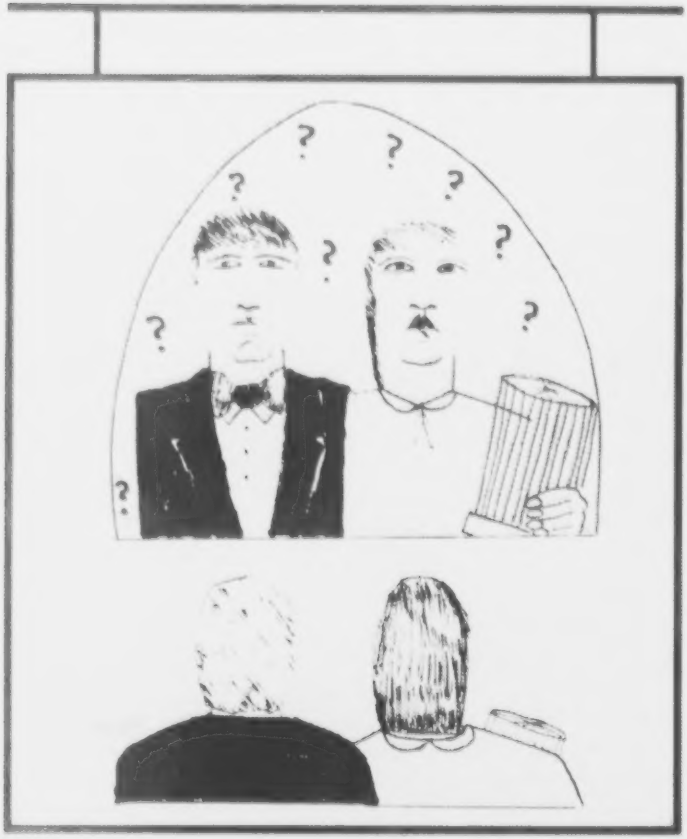
HCITB regional offices 105

Table 1
Starting up a business, a summary of the process


Examine the various options & compare these with your own resources & needs
Are there existing businesses that match our model?
Yes
No
GO AHEAD
Prepare yourselves actively to seek a suitable business & continue your own development
Abandon the idea or start again from scratch
Are we ready for the change?
Yes
GO AHEAD
Look for the business that will closely match your model & continue your own development
No
Wait until you are ready & continue your own development


Do any of these options match our needs & resources?
Yes
No
GO AHEAD
Build a model of the business that will exactly match your needs & resources & plan your own development
Abandon the idea or wait until an option matches
Does the business match our model?
Yes
GO AHEAD
Negotiate its acquisition & prepare yourselves for the change
No
Keep on looking & continue your own development

The right type of business



What are the options?

AT SOME TIME in our life, most of us have entertained the dream of running that little country pub, that attractive small hotel in our favourite holiday spot, that nice little restaurant where we could serve those special dishes, but few turn this into reality. There are people who want to get out of the rat race and work for themselves; others through redundancy start seeking new horizons; for all sorts of reasons, people are thinking about setting up in their own business in hotels and catering.

Some have very definite ideas of the sort of business they would like, without necessarily being too sure how to achieve it. Others are prepared to consider various options for self-employment in this industry particularly by balancing such constraints as:

- Amount of capital available
- Lack of previous experience in running a business
- Skills and knowledge that will be required
- Family and other commitments.

This section takes you through the various factors that you will have to consider when looking at different small businesses in this industry, and at the end will be found a checklist posing the sort of questions you should be asking yourself when examining the options.

The hotel and catering industry is made up of a large number of independent businesses, most of which are very small. Even many of the larger companies, such as the breweries, are made up of many hundreds of small units. Businesses in the industry come in many different shapes and sizes, they cater for many different tastes and needs and are geographically spread all over Great Britain.

These businesses are as diverse as the city wine bar, the tea shop in Somerset, the beach cafe in Blackpool, the transport cafe on the A5, the country house hotel in the Scottish

Highlands. . . . Their one common factor is that they provide one or more of the following: food, liquid refreshment, accommodation. The background, the skills, the characteristics of the people running them are as diverse as the businesses themselves. It follows therefore that most of those who are looking for self-employment can find a business in which they are likely to succeed, provided they possess these basic qualities:

- A liking for people
- Common-sense
- The humility to accept that any business, however small, needs considerable skill and application to run it properly.

There are four basic questions that you will need to ask yourself in considering the options:

- Would we enjoy running this type of business?
- Would we fit in with running this type of business?
- Would we be capable of running this type of business?
- Can we afford to have this type of business?

The word *we* has deliberately been used in posing these questions. Most small businesses in this industry are run by partners, usually by marriage. It is very important that both or all partners are in full agreement right from the start; it is suggested that each of you should answer these questions independently and compare notes afterwards.

One frequent cause of failure has been identified as that of the partner who cajoled, bullied or forced the other into coming into the industry. Later on, the reluctant partner can endure it no longer with tragic consequences, the end of the business or the break-up of the partnership.

It is also important to consider the effects of such a venture on the lives of others who may not be involved directly in actually running the business such as the children or other dependants living with you. Trying to change a friendship into a working relationship with two couples running a business together can also be a recipe for disaster, unless carefully considered.

Would we enjoy running this type of business?

HOW IMPORTANT is it to enjoy your work? For the small businessman whose job is likely to be his way of life and his home, it surely must be essential. There have been cases where, to accumulate funds or to gain experience, a couple have taken on a business that they did not particularly enjoy, setting their sights on different (better?) things later. Such aspirations may not be met! The demands of a small business are such that life can be very miserable if you do not enjoy what you are doing. All the more reason for giving this question a great deal of thought.

Time

What demand is the business likely to make on you? Quite simply, a great deal – especially because customers must come first. Hotels tend to open for longer hours than cafes and restaurants, but restaurants tend to stay open later and the work is likely to be more concentrated. In the leisure areas of the industry, you have to work when the rest of the community is relaxing; in seasonal businesses you are likely to work long hours without time off, but only for part of the year. Public houses can be open every day of the year with fixed opening times.

It is important to consider the effect that these changes will have on your private life. Will you be able to devote the time that you want to the family? Will you still be able to pursue those leisure activities you enjoyed in the past? What about your own holidays?

Effort

Work in this industry can be both physically and mentally tiring. You will have to stand in when staff are sick or fail to turn up, you will spend more time on your feet than in most jobs, and you will have to cope with the paper work as well.

You might have to do heavier and dirtier work than ever before, simply because there may be no one else available to do it.

It is important that the pressures of the work are appreciated. Your health is of special importance; it is not easy to find someone to take your place if you are indisposed.

Family

Family life can suffer, particularly with toddlers and school children. The close proximity of the home to the business can affect your privacy. Comfort may at times have to be sacrificed for the needs of the business. Meal times can be badly affected and diet can become monotonous.

Children, however, can be tremendously adaptable. It is essential that there is full family consultation before any decisions are made.

Would we fit in with running this type of business?

THIS IS probably the most difficult question of all to answer; ideally you should ask your partner's advice as he/she will probably know you better than you do yourself.

Hotels and catering, like other service industries, is all about relationships between people. The success or failure of the business often depends on the relationships that exist between customers and staff, customers and proprietors, and staff and proprietors. These are relationships that you must create and nurture

The starting point is a real liking for people; if this is not genuinely so you may just as well abandon your dreams in this industry.

The good proprietor's aim is to establish an atmosphere that will suit his particular clientele; an atmosphere in which the customer will feel comfortable, be at ease and able to enjoy the services you offer. Tastes vary from the juke box at full volume to the silence of the library reading room, soft lights to psychedelic, dull to screaming decor, and a slap on the back to a polite bow. Whatever you do, you cannot please everybody!

Part of this atmosphere will be the rapport you can establish with your clientele, and will depend on how you appear to them. Your role will be to create this atmosphere for their enjoyment so that they will buy your services. On the other hand, it is very difficult to work in an atmosphere to which you are not attuned, or to create something not to your personal liking. It is therefore sensible to consider those options only that will attract the type of customer to whom you can easily adapt.

The good proprietor should have the following attributes:

- Ease in talking and listening to other people, and knowing when they want him to do so
- Ease with people, so as to enjoy their company and be ready to please them

- Patience and understanding, and a readiness at times to suffer fools gladly.

Few possess all these qualities, so it is important to recognise your own shortcomings and avoid the sort of business where these could be an embarrassment.

Would we be capable of running this type of business?

YOU WILL REMEMBER that one of the qualities listed earlier for those aspiring to become self-employed in this industry was:

- The humility to accept that any business, however small, requires considerable skill and application to run it properly.

Too many people think that running a pub, a hotel or a restaurant is simply an extension of running the home. 'The wife is a good cook, organises lovely dinner parties and I know my wines', does not automatically guarantee a successful future in hotelkeeping. 'Cooking for numbers is easy: for 40 you just do what you would for four and multiply it by ten', is another misconception that will cause problems.

Running a small business requires similar skills to those associated with a large one. A major difference is that the large business will probably employ all sorts to perform the functions that *you* alone will have to take on.

Consider the skills required under these headings:

- Those skills required to run a business
- Those skills required to operate a hotel or catering business
- Those skills required to handle people.

Let us refer to them respectively as business, technical and social skills. Some will already possess sufficient of these skills to run the business of their choice, but most may be proficient in some only, by reason of previous background and experience.

What is important is to identify your own limitations and to determine how they can be overcome.

How can these skills be acquired? The choices open could be:

- To employ others who possess these skills
- To acquire them through training

- To acquire them through work experience
- To pick them up as you go along.

The last is often the method chosen – and it can work out successfully. But there are dangers. With technical skills, or skills of the trade, learning from your mistakes can be costly, time consuming, and damaging to good customer relations, as well as imposing an unnecessary strain and worry on you.

The industry has spent years in developing good practices, tried and proven methods and skills that save time, save money, make work easier *and* produce a better end product. Why re-invent the wheel? Advice on acquiring these skills is available from the regional offices of the HCITB.

Can we afford to have this type of business?

WHAT YOU can afford will depend on your own circumstances, the capital you can raise yourselves, your borrowing power and the return you expect from the business operation. For some, a sufficient return to provide a comfortable living will be the expectation, others may be looking for a certain return on capital.

When considering the options, it is important to answer these questions:

- What capital can you raise yourselves?
- How much could you borrow?
- Will this type of business provide sufficient return to meet your needs?

If the answers do not meet your requirement, the option should be eliminated.

Acquisition costs

Acquisition costs will depend on exactly what you are buying. Most hotels and guesthouses are sold freehold; restaurants and cafes are available both freehold and leasehold, and premises are often rented for this type of business. Public houses may be purchased freehold or taken as a tenancy from a brewery company. Some franchises in catering operations may need the purchasing costs of the equipment only.

It is important to realise that the ability to raise the asking price of a business alone is not sufficient when starting-up. There are many other costs such as legal fees and moving costs, and of course the costs involved in equipping and stocking-up before trade commences. If you are acquiring premises for conversion, then in addition to any planning and licensing difficulties, there can be considerable costs in alterations, installing equipment and refurbishing, and others concerned with supporting yourself whilst the premises are

being converted. It may be necessary to budget for an initial trading loss, while also making provision for the working capital on which the business is to operate.

Borrowing power

Borrowing power depends on your individual circumstances *and* the security offered by the value of the fixed assets should the business close. It is unlikely that any loan obtained would exceed the capital you would be putting up yourself. It is advisable to discuss this at a very early stage with your bank manager.

Expected disposable profit

Expected disposable profit is a personal thing. Some people calculate this as a return on the capital invested, others as a percentage of turnover, and yet others are content to accept a return that will enable them to live reasonably and keep the business in good order. When interest rates are high, then clearly the *cost of borrowing* is a very important factor in your calculations to determine your expected disposable profit (a subject to be dealt with more fully later).

The options

ALL SMALL BUSINESSES in the hotel and catering industry provide one or more of the following services: accommodation, food and liquor. Using this as a basis you can consider a variety of enterprises.

Establishments offering accommodation as their main service

This group includes hotels, guesthouses, boarding houses, rest homes, hostels, motels and hotels, self-catering accommodation, caravan and chalet parks, holiday camps and others. These can be further subdivided according to the type of service they provide or particular market they cater for. For example, hotels can be described as commercial hotels, resort hotels, holiday hotels, tourist hotels, seaside hotels, country house hotels, bed and breakfast hotels and so on.

In considering the various options in this group, it is probably better to ignore the title, and consider the nature of the business by type of customer and the services provided under these headings:

- *The purpose of the customer in using the service*: business, holiday, touring, overnight accommodation, as a home, temporary residence etc
- *Other services offered*: breakfast, lunch, tea, dinner, full board, drinks with meals, bar facilities, leisure facilities
- *Location of the business*: city, town, country, seaside.

Establishments offering food as their main service

This group includes cafes, restaurants, tea shops, snack bars, coffee bars, ice cream parlours, outside catering contractors, home catering services and the many and various fast food operations. While establishments offering take away food only are not strictly speaking catering outlets, they may

well be considered by you as possible options and are included in this group.

These can be further subdivided according to the type of food they provide. It may be based on a particular dish (fish and chips, steaks, seafood) or the country of origin (Chinese, Indian, Greek, French, Italian). Other businesses can be described by their location (beach cafe, transport cafe).

Again, it may be better to consider these options by the nature of the business rather than the title:

- *The type of food served*: seafood, fish and chips, French, Italian
- *The type of service*: silver, plated, counter, self-help
- *The purpose of the customer in using the service*: leisure, entertaining, business lunch, shopping meal, travelling
- *The location of the business*: town, country, seaside, roadside
- *Other services offered*: entertainment, drinks at table, bar facilities.

Establishments offering liquor as their main service

Public houses form the largest part of this group, but it also includes wine bars and privately owned clubs.

Most public houses in England and Wales are owned by breweries. In Scotland there is a higher percentage of privately owned houses. They can be broadly divided into three categories:

- Managed houses (not really an option since the manager is an employee of a larger company)
- Free houses
- Tied houses.

Free houses are businesses owned or leased by the proprietor where no ties exist to a particular company for purposes of obtaining supplies.

In tied houses, the proprietor is under agreement to obtain certain of his supplies from the company (usually a brewery company) which either owns the premises (for whom he is a

tenant) or which has provided a low-interest loan on the premises.

A tenancy is often an attractive proposition to a first-time buyer who is limited by his available capital, but good tenancies are very much in demand. Again you should consider the various options within this group according to the nature of the business:

- *The market to be served*: local residential trade, local business trade, passing trade, travellers, tourists
- *The location of the business*: city centre, suburbs, country
- *Other services offered*: accommodation, meals, snacks.

Characteristics of businesses

Once you have considered the range of possible enterprises it would be wise to look at them from the point of view of their special business characteristics. These can be expressed in general terms only, and because of the diversity of business, are not necessarily true in all cases.

Table 2 should be used then as a guide, indicating comparisons between the types of services offered.

Table 2
Business characteristics, a comparison

CHARACTERISTIC	ACCOMMODATION SERVICE	FOOD SERVICE	LIQUOR SERVICE
Special needs of a new venture	Planning permission for change of usage	Planning permission for change of usage + possibly liquor licence	Licence availability
Ownership	Normally freehold	Rented/leasehold/freehold	Usually leasehold
Capital outlay	Substantial	Comparatively low	Low
Fixed costs	High	Low	Low
Labour costs	Comparatively low	High	Low
Other operating costs	Low	High	High
Maintenance costs	High	Medium	Medium
Skills required	Medium range	Wide range	Limited range
Time demands	High	Medium	High
Critical factors in success	Comfort, cleanliness	Quality, presentation	Personality
Profitability factors	Occupancy rates	Regular clientele	Volume of trade

Considering the options

THERE ARE more than 100,000 small hotel and catering businesses in Great Britain of which perhaps no more than 100 will be open for your serious consideration; your initial problem will be to eliminate the unsuitable 99,900.

You may already have very definite ideas of what you want; or you may be prepared to consider any number of options. If you are too specific the field may be too narrow, but if you are not specific enough your difficulty will be where to start.

It is advisable to begin by considering all the options available, and then begin to eliminate those that are unlikely to be suitable by asking yourselves the four key questions already posed.

Start with the first two questions: *Would we enjoy running this type of business?* and: *Would we fit in with running this type of business?*

If you cannot give a positive *'yes'* to both questions, discard that as an option.

Now look at the remaining options, and ask yourself the third question: *Would we be capable of running this type of business?*

With some options, such as the good quality restaurant, it could be disastrous even to contemplate it if the answer is in doubt. But do not be too eager to eliminate an option on this score; it may be your confidence, rather than your skill, that is lacking; perhaps by lowering your sights to a smaller or simpler operation you will be able to build up your skills and experience and move on later to the type of business you really have in mind.

The key question is the last one: *Can we afford to have this type of business?*

Failing to ask this question or to answer it satisfactorily is probably the reason for most failures of newcomers to this industry.

You may well not have sufficient information or knowledge of the industry to be able to answer this question yet, with a firm conviction. Again, do not be too eager to eliminate an option at this stage on grounds of costs. You may well be able to find a smaller business of a similar type to begin your career in the industry, and there build up your assets so that you can move to something better after a few years.

Having 'tested' the various options by applying the four questions to each, you may now:

- Have decided to eliminate all the options, or
- Still have a number of options you could pursue, or simply
- Have a better idea of the particular type of business you would prefer.

If you have eliminated all the options, then is there really a future in self-employment in this industry for you? If you still have a number of options you could pursue, then you should examine them again until you can concentrate on one or two only.

In the next section, *Building a model of your ideal business*, you will be looking in greater depth at the type of business you have decided to consider. Before you do this, you should try to find out as much about it as you can:

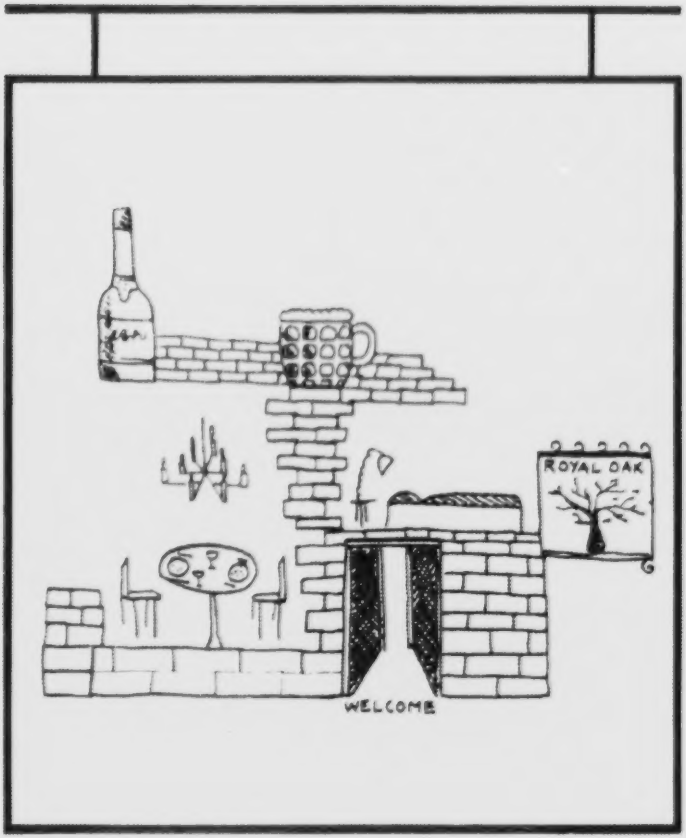
- By reading about it
- By talking to friends, and anyone who may be able to help
- By discussing your ideas with your solicitor, accountant, bank manager or others with professional experience
- By visiting similar businesses and sampling the products and services they provide
- By talking to the owners of these businesses
- By discussing it with a business transfer agent who specialises in this type of business.

The more time spent now making quite sure that you have chosen the right option, the more you are likely to have made the right choice when you actually acquire a business.

Checklist 1
Selecting the right type of business

1. Would you enjoy working in this type of business?
2. Would you enjoy dealing with the customers?
3. How many hours a day, days a week, weeks in the year will you have to work?
4. How demanding will the work be?
5. Will you be physically and mentally capable of sustaining it?
6. Will you be able to devote enough time to your family?
7. Will the new life suit them as well?
8. How will it affect your/their privacy?
9. How will it affect your/their other interests?
10. Will you have to sacrifice your/their comfort?
11. Have you the right attributes to run this type of business?
12. Will you be able to get on with the customers?
13. Will you be able to create the right atmosphere?
14. Will you be good 'mine hosts'?
15. What are the skills needed to run the business?
16. Which of these skills will you need to acquire?
17. Will it be possible for you to acquire them?
18. How will you be able to acquire them?
19. Can you raise sufficient capital to start up in this type of business?
20. How much are you likely to be able to borrow, and what will that cost?
21. What profit is it likely to produce, and will that be enough?

Building a model of your ideal business



The factors

ASSUMING you have followed the course of action recommended in the previous section, you have now:

- Looked at all the options
- Tested them against four questions
- Decided upon which option to pursue
- Found out as much as you reasonably can about this type of business.

You are now ready for the next step: to build a model of a business that would exactly match your needs, your resources and your circumstances; in other words, your ideal business.

Why bother to do this? Why not start to look at actual businesses and continue until you find the right one?

For two good reasons. Firstly, it is expensive, both in terms of time and money, to travel around the country looking at prospective businesses. Secondly, it can be difficult to identify the right one when you see it, unless you know specifically what you are looking for.

Before actually beginning to build the model, these factors will need to be considered:

- The size of the business
- Its location
- When you will be ready to take it over.

The size of the business

One of the major causes of failure is to take on a business that is too big for you. Prospective owners often dispose of everything they have and then take on a heavy loan to scrape together the purchase price. *Result*: no funds left to run the business or survive early trading losses, and the bank pressing for its loan repayments.

There may not be a financial problem. Even so, if you have had little previous experience, it is much easier to start small

and learn the business before taking on the size of business you would eventually like to own.

It is always wise to start in a small way unless you have a great deal of your own capital *and* the skills and experience to tackle a larger enterprise. Look on the first step as a stepping stone in the right direction, and the business you eventually want to own as the second, third or even the fourth one you buy.

What is important is that the first business will provide you with the things that you need to progress towards your eventual goal: more capital and expertise. This will involve assessing the likely capital appreciation of the business and estimating its ability to give you the skills you will require for a larger enterprise.

The location

Most people have a favourite place in which they would like to set up in business. Unfortunately businesses in the more sought-after areas tend to be more expensive to acquire, and do not necessarily provide a better living in financial terms. It may be better to consider a much wider choice of location for your first business.

Location within a particular town or district is important. Businesses in select areas may be more expensive to acquire; but it does not necessarily follow that they are the more profitable; it may be better to start a little 'down market' from your eventual goal.

Considering a wider choice does not mean considering a business in the Scottish Highlands if your eventual goal is one in Cornwall! It is important not only to get to know the particular area in which you eventually wish to settle, but it helps to be on the spot when the next potential stepping stone comes on the market.

The timing

When to make the move can be the most difficult problem of all. There are often many factors to consider, such as:

- Selling the house or other assets in time to release the capital for completing purchase
- Freeing yourselves from business and other commitments at the right time
- Effecting the move to fit in with your children's education
- Effecting the move to fit in with another partner
- Allowing yourselves time to prepare for the change by acquiring the skills and knowledge of running the business.

The commonest problem is that an ideal business comes on the market and the potential buyer cannot make an offer because the date of completion required by the vendor cannot be met. There may be room for negotiation, but if there are other potential buyers, you could lose an opportunity.

If you are really committed to finding your own business, you may well have to make some sacrifice at this stage in order to realise your aims. Selling your house and moving in with relatives, leaving the children for a period with friends or relatives, a partner having to take over the business initially on his own, these are all contingencies you may have to consider. Whatever else you need to do at this stage, you must plan to be ready to seize the right opportunity when it occurs, even if it means some inconvenience and hardship. Above all, ensure that whatever capital you need to provide will be available when it is required.

With seasonal businesses, consider also the pattern of trading. Taking over at the end of season will mean several months with no cash flowing into the business; on the other hand, it will give you several months in which to prepare yourselves for the next season. With any business, it is wise to time the takeover with a quiet period ahead of you in which to settle in.

Your own circumstances

IT IS now necessary to take careful stock of your own circumstances and to forecast accurately what you are able to put into the business. This needs to be assessed not only in terms of finance, but also in terms of personal considerations.

It is also necessary to estimate what the business must provide so that you can survive. This can also be considered both in financial and personal terms. You were warned earlier in this section of the dangers of taking on too large a business, but it is equally serious to take on an enterprise that cannot generate sufficient profit to support you, unless it is a short-term contingency and you provide for additional funds from capital or for one of the partners to continue to work outside the business to supplement the income.

What can we put into the business?

The first consideration is the capital you can raise from your own resources. It may come from the sale of your home, your existing business or other possessions such as the family car, jewellery and other valuables. You will not only need to know their saleable value, but also how readily they can be transposed into hard cash. You may also be considering such sources as savings, insurance policies which are about to mature, redundancy payments, sale of investments and recovery of loans; but again, it is important to know when these can be realised.

You should also have at this stage some indication of your *borrowing power*. Your bank manager should be able to help you in assessing this. It is always worthwhile to involve him in your project at an early stage. Although he is unlikely to make any firm commitment until he has more information about the actual business you are negotiating to acquire, he may well indicate how far he would be prepared to go for the right

enterprise. If you do not consider that to be sufficient, you will then have time to look for alternative sources of finance.

This interview may well help you when you are considering the timing of the move. He will be able to advise you on the viability of a bridging loan, if one is likely to be required, and being aware of your intentions, to plan to respond quickly to your request for funding in due course.

You can also be taking stock of your personal strengths and weaknesses. The degree of *dedication* to the venture is an important factor. You may be prepared to make considerable sacrifices to the business, such as doing without holidays and other pleasures, working excessive hours, accepting lack of privacy, and the like. It is easy to plan making such sacrifices but are you sure you will be prepared to implement them later? Where others will be involved it is vital that the plans are agreed by all.

Your own *personalities* need to be considered. This is difficult to assess yourself, and your marriage partner is not always the best judge either. Sometimes the honest opinion of a close friend can be sought.

There are stories of how some hoteliers or landlords, by force of personality alone, keep their establishment going successfully, even though the place is dowdy, the food not exceptional and the prices high.

Such places may exist, but if so, are the exception. Most proprietors are ordinary people who happen to like other people, care about their customers' welfare, set reasonable standards and try to please. Provided your own personality enables you to fit this mould, you should have no problems.

Your own *ability and experience* are key factors and the need to learn as much as you can before you start cannot be stressed too strongly.

If you are considering a larger business, you might be able to buy in the skills that you yourselves lack: a good chef, a manager, even your own accountant or a managing director to run the business for you. Even so, you should consider what their involvement with the business will be: as an employee, a

form of partnership, on a profit-sharing basis, full-time or only in an advisory capacity. Whatever the case, you have to make the important decisions yourselves – and that requires skill and experience.

Most of you will have to provide the management skills yourselves, and probably a lot of the technical ones as well. It is advisable to consider individually at this stage your own particular strengths and weaknesses, likes and dislikes and aptitudes, so that you can come to an amicable arrangement regarding the division of responsibilities and workload, once you take on a business.

Having done so, identify where the gaps in your skills are and try to fill them before you start. You may be able to work part-time for someone else so as to gain practical experience; there are many different training courses available (about which the Hotel and Catering Industry Training Board can advise); and there is plenty of reading material available (ask the HCITB to send details of the Board's publications).

Above all, do not think you can learn everything as you go. Your reputation, good or bad, will begin to be established on the day you start trading, especially if you rely on local trade. If you employ staff, they will very quickly identify inadequacies. Attempting to learn from your mistakes can seriously affect your reputation, your relationships with your staff and your pocket.

You should now start to consider the minimum financial return from the business that will be acceptable to you to suit your own circumstances.

First, consider whether this return is in the short or long term. If your first business is to be a stepping stone, and you envisage another move within a couple of years, then you may be prepared to manage on a lesser return. If the business has potential for building up within a reasonable period of time you may accept less. But if your plans are not for another move in the near future, and developing potential is unlikely then you must look for the sort of return that will justify making the move in the first place.

You also have to consider priorities as far as your private life is concerned. Feeding, clothing, housing and educating the family are essentials for most people, and must be provided for. Leisure pursuits, amenities such as television and cars, comforts and luxuries, may have to take a low priority.

The problem often is whether to spend money on the family or the business. Those who are self-employed for the first time may find such decisions particularly difficult to make. If any business is to be successfully developed it is necessary to seek ways of improving the facilities. If you are to gain the benefits of self-employment, you will be looking for better standards eventually for yourselves. So it is important to be very clear in your own minds what your priorities are at each stage and that the whole family is generally in agreement.

The creature comforts the business provides should also be considered. Will the children have separate bedrooms or have to share? Will we have our own sitting room? Will we give up our own bedroom for guests in high season? Will we be eating the same food as the guests? How much free time will the business allow us? At this stage you should decide which sacrifices are acceptable and which are not.

Planning the first step

BY NOW you ought to be forming a mental picture of the sort of business you will initially be able to acquire. You should also have some idea what that business will provide, both in terms of the immediate returns and its contribution to your own future plans in the hotel and catering industry.

It is now time to commit to paper some definite proposals for the kind of business you are prepared to consider. See Table 3 overleaf, *Building the model*.

The model of the business you would like to acquire should cover at least the twelve considerations identified in the table. You may well want to add a lot more by considering such factors as: the type of layout you would like to have, facilities for family and guests, the type and amount of equipment, fixtures and fittings, furnishings, the standards you will want regarding service and decor, even to considering the storage space that is likely to be required.

One word of warning. If you are too specific, you may find it very difficult to find any business that matches your model; and there is the danger that your judgement can be clouded by looking at minor points and detail, missing the essentials. Consideration of more detail can be very useful when you actually begin to look at particular businesses on the market.

Table 3
Building the model

1	**The type of business that you would consider** State in as definite terms as possible the type (or types) of business in which you are interested.
2	**The size of business that you would consider** State this by quantifying the number of bedrooms, covers (restaurant seats), bars etc that you consider would be within your ability to operate, and, from your own examination of the business and property market, within the price bracket you consider that you can afford. Indicate whether freehold or leasehold or rented.
3	**The location that you would accept** State this in broad terms; it is better to be offered a business in an alternative location that may ideally suit your particular needs than not even to know it exists.
4	**When you could undertake such a venture** Ideally this should be stated as a date from which you would be prepared to consider a suitable opportunity. State any constraints or preferences that would affect the time of the year.
5	**The management team and family** List those who are actually going to be involved full-time in the operation of the business and the likely duties and responsibilities each will undertake. Include any person who may be fulfilling a part-time function, and any dependants who will be playing no active part in the operation but will be living on the premises. Give also the minimum requirement for private accommodation.

6	**The total capital available** From your own resources; from private borrowing (state interest rates and repayment conditions); likely to be negotiable through other channels.
7	**The minimum return you require in order to survive** State this in cash terms indicating how long you will be prepared to accept this level of return.
8	**Your previous background** Set out the details of ability and experience you have which are likely to be relevant to the business you are seeking.
9	**Training and development** Outline any training and development you have or propose to undertake so as to equip you for your business.
10	**Future plans** State whether or not you propose to make this a stepping stone towards your eventual choice, and if so, some indication of how long you would expect to operate the first business.
11	**Any future changes** List such things as other members of the family joining the business at a later date, expectations of additional capital or other changes that could materially affect future plans.
12	**Other information** Finally, note any other information that you consider relevant in deciding about the acquisition of a particular business. You should especially include any constraints that have not been referred to earlier.

You will now need to 'test out' the model you have prepared. It was suggested that you commit it all to paper. Having done so, you can then ask friends, relatives, your professional advisers, people already in the industry, or the HCITB, to look at your model and comment on it. Once you are satisfied that it is practical and that it is what *all of you* want, you can then arrange to see a business transfer agent to help you find the business that will match your model sufficiently for you to consider its acquisition.

Do not wait until you are ready to rush in and buy. A good business agent can give you helpful advice on the practicality of your particular model, and the sooner you start to talk to him the better.

There is one final decision to be made before you start your search. How do you propose to acquire the business you want? These are the options:

- To acquire land and build
- To acquire premises used for other purposes and convert
- To buy an existing business.

The first two ways make it easier to develop the business to match your particular model.

The first method is rarely chosen by the first-time buyer. Building and development costs are high, invariably exceeding original estimates; the time taken in obtaining planning permission, building and fitting out is difficult to predict, and it is a long time before the business starts to earn any money.

The second means is favoured in acquiring restaurants and cafes, particularly in town or city centres. Beware of conversion costs, particularly in rented premises. If a lot of money is invested and the business does not succeed, it can be very difficult to recover your investment when you close it. It is also very important to find out well in advance the situation regarding planning for change of usage, licensing, compliance with fire and health regulations, local bye-laws and other

legislation. Conversion can also be costly in the time taken before trading can commence.

Conversions of larger private houses or a number of adjoining smaller properties into hotel accommodation are undertaken by some operators, but conversion costs can make it uneconomical, and it will require very careful costing, and probably the need to carry out a lot of it yourselves if it is to be considered. As it is invariably impossible to get a new full on-licence, conversion is rarely considered for public houses.

The third option is the one normally followed for pubs and hotels, and for a considerable number of cafes and restaurants. Details of existing businesses are advertised by business agents and estate agents. Once you are satisfied that your model is complete, arrange to interview an agent.

Checklist 2
Building a model of your ideal business

1. What type of business are you proposing to have?
2. What size will it be?
3. What services will it offer?
4. What amenities will it provide?
5. For what types of customers will you cater?
6. Where will it be located?
7. When will you be ready to start up the business?
8. Who will be involved in running it?
9. What will be their separate tasks, responsibilities?
10. What staff will be employed?
11. What funds will be necessary to acquire it?
12. How will this be raised?
13. What net return will be expected?
14. What is the least return acceptable in YEAR ONE, YEAR TWO?
15. What skills and knowledge from your previous work/ experience will you be able to apply to the new business?

16 Before you start up the business, what further training/development do you consider will be essential, useful, desirable?

17 How do you propose to develop your business/your future in this industry?

18 Will this be your final business, or are you planning to move to another business later?

19 If you are intending to move, how long do you think that you will be running the first business?

20 If you are intending to move, how do you picture the eventual business you would like to have?

21 Are there likely to be changes in circumstances that will/could affect your future plans, and if so, how will they affect them?

22 Are there any particular problems that you envisage will have to be overcome in starting up your first business?

23 How do you think they can best be overcome?

24 Having built up the model, how do you propose to 'test it out'?

25 What further research are you going to have to carry out before you will be ready actively to start looking for the right business?

Exploring the market

The agent

SO YOU have made up your minds. You have decided on the type of business you are looking for, narrowed down the field by specifying its size, possible locations, and probable cost, and determined when you would be able to start running it. You have discussed it with friends, professional advisers and are agreed that it is what you want and that it is practical to achieve. Now to set about finding the business that will match the model you have created.

The business agent

If you are buying property, you would consult an estate agent. If you are buying a business you need to consult a business transfer agent. If you are buying a business in hotels and catering, it makes sense to consult a business agent specialising in the sale of hotel and catering businesses.

There are a number of agents who specialise in this industry, both at national and regional levels, and in most resort towns local estate agents are also involved in selling small businesses. There is a common misunderstanding that larger agents do not handle the small business market; this is not the case; they normally do have a considerable number on their books.

Selecting an agent

THE FIRST thing to remember is that an agent is retained by the vendor to sell his business. He is therefore acting in the best interests of the vendor, which is to sell the business at the best price for his client. It is possible (but not common practice) to retain an agent to investigate particularly suitable business for you. You will be charged a fee for this service which will, however, include a valuation of the prospective business as well as the purchase negotiation.

The good agent, while serving the best interests of his client, is also keen to help the buyer make the right purchase. Not only has he a reputation to maintain, but commercially he is aware that if the buyer is satisfied with the purchase he is likely to return to the same agent when he decides to sell and buy another business. Like any other profession, there are some agents who are not too scrupulous in considering the interests of the buyer. Some estate agents, involved in selling only the occasional small hotel or guesthouse may not have sufficient experience to be able to assess the suitability of the buyer for that particular business. The good business agent has a wealth of experience, and if he is aware of all the circumstances affecting the buyer, can be a source of sound advice on the relative merits of various businesses.

If your choice of location is not too limiting, then the large agent is recommended as he will be able to offer you businesses over a wide geographical spread. If you are very positive that you want a business in a particular town or area, then the agent operating locally is also a useful source. But remember that it is better to select an agent or agents who specialise in the sale of businesses in this particular industry. A list of such agents is included in the *Small Business Information Pack* available from regional offices of the HCITB at a modest charge.

It may be advisable to get your name on the mailing lists of

a number of agents initially to see what is available on the market. Some charge for this service, others do not. It is advisable to view a number of businesses that approximate to your requirements, not necessarily with serious thoughts of purchasing, but to give you a better appreciation of businesses that are available and what they are likely to cost. One well-known agent suggests that the potential buyer ought to view six businesses at least before he considers a purchase.

Interviewing the agent

AN INTERVIEW is a two way affair: you want information from the agent, and he seeks information from you. You will want to know such things as the area that he covers, the availability of businesses of the size and type in which you are interested, the method of selection of businesses about which you will be advised, the cost of the service to you, and of the arrangements that are made to view businesses. You will want to know at what stage of the negotiations you will be able to see financial records of previous trading.

He will want to know as much as possible about your requirements: the type and size of business, acceptable locations, family commitments, available capital, previous experience, in fact all the twelve points you considered in preparing the model of a business suitable to your needs which were listed in Table 3. The experienced agent can often match a potential buyer to a business, and the more information you can give him, the easier it is for him to get a mental picture of the right business for you.

The good agent can be of great help in guiding and advising potential buyers of the suitability of a particular business. It is in the agent's interest that both the vendor and the purchaser are satisfied with the transfer of a business, and he can be very useful in recommending a particular purchaser to the vendor, negotiating an alteration in the asking price or persuading the vendor to effect the change at a time suitable to the purchaser.

It is fair that you give him as much information as you possibly can to enable him to do this and, above all, to be completely honest with him. Some purchasers are reluctant to disclose all the capital they have available; this will not be in your best interests, nor help the agent to find you the right business. On the other hand, you need to make it clear to an agent that you have thought through very carefully your own

requirements and are not prepared to be rushed into a purchase that is not entirely suitable. It is therefore important that the initial interview be carefully planned in advance.

Many agents will offer to help you with arrangements to raise loan capital, usually through a finance house. This may be more expensive than borrowing through a bank, but remember that there are 'horses for courses' and the particular terms offered could be more advantageous to your particular circumstances, even though it may cost more. It is worthwhile to consider every source of possible funding while you are at the planning stage, and although it is suggested that your bank manager should be the first person to approach for advice, do not overlook alternative sources; the reputable agent can be of considerable assistance in advising you on alternative sources, and the larger agents employ brokers for this purpose.

During the course of the interview, you will need to get some indication from the agent of your chances of acquiring a business to match your model at a price that will suit your particular circumstances. The reputable agent will tell you if he thinks that you are setting your sights too high, or conversely, if you are not setting them high enough.

Consider very carefully the advice he gives you, bearing in mind that he has a great deal of experience but is also in the business of selling to you. If he does not agree with your projections, find out on what grounds he disagrees. Ask him how frequently businesses similar to the one you seek appear on the market. If it is very infrequently, ask him why.

It is important to establish a relationship with the agent which will lead him to a full understanding of your particular circumstances, needs and preferences. If you are unable to achieve this at the first interview, arrange to meet again; if you cannot establish the right relationship at all, consider an alternative agent.

You may as a result of your first interview wish to reconsider the model you have created. Give yourself a chance to discuss this with others before reaching any decision,

including any professional advisers you used in creating the model. Remember that you are probably committing yourselves to one of the biggest steps you have ever taken in your lives, and that you are likely to be investing all your capital and other funds in the venture. You have to be sure that you are seeking the business that is right for you, and that the agent who is helping in this search fully understands and can help you to find it.

Now you must wait for the agent to send you details of properties that might be of interest to you.

Selecting the businesses to view

THE NUMBER of details you receive will depend on such things as the number of available businesses on the market, the extent to which you laid down specific requirements, the size of the agent, and the degree to which he has carried out a preliminary selection process for you. Some agents tend to be very selective; others send nearly everything that is likely to resemble even remotely your specification.

You will want to view as many as possible of those businesses that could meet your requirements, but viewing can be an expensive and time-consuming occupation, especially if the locations you are considering involve considerable travelling. You will therefore need to restrict the number of businesses you view to a practical minimum.

The information you receive will be in the form of a brief description and certain details of the business. These will have been written either by the vendor, or by the agent on instructions from the vendor. Remember that they are a form of advertisement designed to attract potential buyers to view. They tend therefore to contain only the sort of information that will encourage viewers, and to use superlatives freely. The first thing to do is to distinguish between facts and opinion and to identify those gaps in the information provided that you would wish to fill before going to see for yourself.

Again, the importance of dealing with reputable agents must be stressed. Not only will they be conscious of possible legal repercussions under the Trades Description Act, but will also be jealous of their own reputation, and so will avoid sending out information that may be misleading to potential buyers.

Facts and opinions

Particularly when the details have been written by the vendor, the information given can be misleading. 'Spacious

dining room' can be interpreted in many different ways. 'Takings could exceed £60,000 this season' may mean it is true provided every bed is filled until late October when, in fact, there is a record of poor late season business. Before you decide to drive 200 miles to view, you would like to know facts, not simply opinions.

Omissions

Most details of businesses follow a pattern. You will probably have been looking at these for some time before reaching this stage. A statement such as 'overlooking the river' but which fails to add 'between the sewerage works and the local glue factory' is obviously an omission any vendor might make, but sometimes information that is normally on the agent's information sheet does not appear. It is important to know why it has been omitted.

Superlatives

If you believed everything that appeared on agent's information sheets, then nearly every business occupies a prime site, is in an excellent state of repair and is superbly equipped and decorated. The problem is that these descriptions genuinely do apply to a number of businesses on the market, but not equally to all. It is helpful to know if this description is that of the vendor or of the agent.

Price

The asking price on the information sheet is not necessarily the price you would have to pay. Some vendors take the advice of their agent in setting this price. Often the price is set higher than would be acceptable to the vendor and there is room for negotiation. Do not necessarily reject a business because the price is a little above the ceiling you have set yourself.

How then do you select from the various businesses those for further examination?

The first step is to examine the advertising material

carefully. Discount the superlatives, distinguish between fact and opinion, and note the omissions. Decide upon the questions you need to ask to clarify or amplify any parts of the information provided, and then contact the agent for answers.

Good agents try to view any business to be sold before notifying a potential buyer. The exceptions are when an agent wishes to give a potential buyer early warning of an impending sale because he considers that the business would be particularly suitable, or because he has previous knowledge of that business.

If he has not viewed the business, then one of his colleagues will probably have done so, but if no one has viewed it then he should be prepared to find out the answers to your questions for you. He might suggest you contact the vendor direct, but this is not common practice.

No agent is likely to have formed an accurate assessment of a business unless he has viewed it himself. So try to avoid the agent that handles businesses on a second-hand basis. Find out such things as:

- Why is the vendor selling?
- Is the date of completion negotiable?
- Is the price negotiable?
- What are the constraints (if any) on viewing?
- Are there audited accounts available and, if so, for how many years?

If you are satisfied from the information sheet and subsequent answers to these questions that the business could meet your requirements, then go and look at it.

Planning to view

IT CAN be very frustrating to arrive to view a business, find that it is exactly what you are looking for but that you are third on the list with the option to buy. When this happens three or four times, then you may be tempted to give up trying.

This has been the experience of many people running successful small businesses today. Very few of them now regret that they were unable to acquire the first business they felt they really wanted. But if you are continually being 'beaten to the post' because others are reacting more quickly, then something needs to be done.

Time is important. It means that you need to be well enough organised to examine the advertising material, clarify details with the agent, decide to view and advise the agent of that decision, all in a very short period of time. The agent may tell you if there are other prospective buyers, although he is not obliged to do so. He may also advise you on how urgent it is that you view quickly.

This may well require some advance planning: getting someone to look after the children, arranging for time off work and releasing yourselves from other commitments, all at short notice. But it is only likely to be so urgent when it is really a seller's market or if the offer is particularly attractive, but it may pay to be prepared.

If you have a long distance to travel, it is often advantageous to view a number of businesses on one trip. There may not be many in one area all of which accurately meet your specification (or match the model) but you may consider viewing some that are on the borderline, simply because you are going to be in the area. There are instances where the last choice of several on an itinerary turned out to be the right one.

Do not aim to view too many businesses in a short time.

Just as the initial interview with the business agent had to be carefully planned, so does each visit to inspect a business and the interview with the vendor. First impressions are vital, and the decision of the vendors on whether or not to accept a particular offer is often coloured by their attitude towards the buyer. When you have lived in and run a business for a number of years, it becomes part of you, and you are naturally concerned about who the next owner will be.

The interview also needs to be carefully planned to gain the maximum benefit from the visit. It is not just a question of the suitability of the environment for you and your family, but of its practicality and potential as a business which you can successfully run to meet your own needs; and this must initially be assessed in a few hours.

Who needs to view?

Depending on the relationship between all the partners concerned, and the degree to which their aspirations, interests and opinions are common, the initial visit can be made by only one of the partners, provided it is considered as an exploratory visit so as to gain more information, and all partners have an opportunity later to view before any decision is made.

You may wish to take the children with you, or friends whose advice you value. Remember that in this industry you are likely to be viewing a home as well as a business, and the vendors may not welcome an invasion of their privacy by too large a party. Try to keep the number to a minimum on the first visit, and if you have to take the children with you check with the agent beforehand. It may be advisable to leave them in the car until you feel certain that they will be welcome.

If you do take children or friends, establish beforehand who will be asking the questions!

Planning the visit

You will have arranged with the agent an appointment to view. This may be a set time and date, or can be a fairly open

arrangement. The more specific you can be the better, and like any other business appointment, it pays to be punctual. In the case of a pub, restaurant or any establishment serving meals or refreshments to the public you may wish to partake of a meal or drink 'incognito' in order to get an idea of the atmosphere. This obviously needs to be done before the formal interview, but it is at least polite to make yourselves known towards the end of the meal or at some suitable time.

You will also need to set aside time to explore the immediate area as part of the process of assessing the potential of the business, a point covered later in this section. This is better done before your appointment as it may raise further questions you wish to ask.

Planning the interview

There are two parts to viewing a business, the physical tour of inspection and the interview with the vendors or their representatives. It is not always possible to determine the order in which these should be undertaken, but if possible, carry out the tour of inspection first. This again may raise questions you wish to ask later during the interview. It may also provide the answers to questions you intended to ask.

It will help to write down a list of questions. If you have had little or no previous experience in the industry, it is not likely to be of much use asking questions of a technical nature. Leave that detail for a later occasion; concentrate on those questions that will substantially help you to match the business to your model.

It is useful to establish a rapport with the vendors, and it helps if you can encourage them to talk about themselves. Get them to talk about their own experiences in the business, their previous background and knowledge, their hopes and aspirations, their problems, their future plans, their reasons for leaving. Be prepared to ask advice about any of your own problems: lack of experience and technical skills and knowledge, staffing levels and availability, suitable schooling and other amenities, remembering that they have already had

the experience of running the business that you are considering. The weight and credence you place on their replies, advice and opinion is for you alone to consider in making your decision, but it can prove useful.

Avoid too much reference to your own plans, particularly if the vendors have been in the business some time. It is natural to resent a successor who is proposing to sweep away years of effort! Avoid at all costs any criticism of anything you see or hear, but do not be too lavish with your praise. You are there to learn as much as you can about the business and its potential and to create a reasonable impression on the vendors. If you try to cover your own deficiences by blustering or exaggerating you are unlikely to succeed. Most small business people started themselves with little experience or knowledge and are sympathetic to anyone in a similar situation.

Researching the area

An essential part of the visit is a tour of the surrounding district. If you are particularly interested in a business, it may be worthwhile having a further look round after the interview before going home to make your final decision. There are three main factors to consider in making this tour:

(a) *What is the potential of the local market for the services that I am proposing to provide?* If you are relying wholly or partly on local trade (either immediately or later on) you will need to assess the demand and type of service required. Assess the size of the catchment area for the business, the number of other establishments offering similar services, how well they are providing them, what they are charging, how convenient it is to reach the business you are viewing (accessibility, parking facilities) compared with others, and its reputation locally. Look for any signs of new development.

(b) *What local amenities are there to attract visitors to the area?* If you are thinking of offering accommodation or other services to visitors, you will need to consider the attractions that the area has to offer them. Assess the type of visitor the place is likely to attract (commercial, tourist, day tripper, serviced or

self-catering holiday makers), how they are likely to spend their time, amenities they will require and the extent to which these are already provided. Assess the number of establishments offering services similar to those you are proposing, how well they are providing them and what they are charging, how easy it is to reach your potential business, to what extent the area relies on chance trade and how well placed your business is compared with others to catch it.

(c) *What will the area provide for ourselves and family?* A common danger is to be carried away by the attractions that an area has to offer to the visitor. These are important from the business viewpoint, but living permanently in the area, particularly out of season, is completely different. Such considerations as shopping facilities, schooling, future careers opportunities for young people, unemployment levels, entertainment and leisure pursuits must be taken into account.

The research can be carried out by driving around in the car, walking, talking to the locals, reading the local press; or through the local hotels association, local and regional tourist offices, talking to friends who know the area, visiting local council offices, estate agents etc. You will get most out of it if you decide your questions beforehand and how you propose to get answers; do not attempt to do too much in too short a time. You will probably want to have a further look, perhaps taking other members of the family and certainly any partner who did not come the first time.

Preparing the questions

Having decided to view, clarified points with the agent and planned the itinerary for your visit, you will now need to sit down quietly with pencil and paper and list all the questions to which you need to find the answers. Checklist 4 should help you in this. Remember that the answers you want at this stage are those that help you to make up your mind AFTER the visit on whether or not to proceed any further. Having framed the questions, then decide how and from whom you propose to get the answers.

58

Viewing

PERHAPS the best advice that can be given to any potential buyer about to view a business in this industry, is to beware of first impressions. The expression often heard 'we fell in love with it as soon as we saw it' may be alright when it applies to a home, but it can be very dangerous when applied to a business. To view a business in a state of euphoria, having already made up your mind that this is the place you want can invite all sorts of problems. The tendency is to make too much of its virtues and ignore the drawbacks. This piece of advice may sound trite, and the sort of mistake no intelligent businessman would make, but many hoteliers, publicans and restaurateurs have confessed that they went into their first business in this way and lived to regret it.

The weather and the time of the year can affect your judgement. To see a hotel nestling on the cliff on a warm, windless August day, with all rooms full and the guests sunning themselves in the garden by the pool, can be misleading. Seeing it in January in a force ten gale when there are no guests and no heating, can create an entirely different impression.

The attitude of the vendors

Provided that you have planned your visit at a time convenient to the vendors you will find them co-operative as a rule. It can be quite an emotive experience showing strangers round your business and your home, knowing that there is a chance that they may be taking it over, and this can create barriers. It is important for the potential buyer to understand this.

Politeness helps to get the relationship off to a good start. If you are going to be late or unable to attend, please give the vendor as much notice as possible. Nothing upsets a vendor

more than a potential buyer who is late or fails to turn up. Remember: one day you may be the vendor yourself.

Few of us like criticism, particularly from strangers, and too often viewers either offer or imply criticism. Most small businesses have one or more features of which the proprietors are not particularly proud, often something quite minor, and they tend to be a little defensive about these during a viewing. By all means question the vendors to clarify matters, but avoid critical comment.

If you are considering major alterations, either to the premises or the type of operation, keep this to yourselves unless it is absolutely necessary to mention it to the vendors. If you want information about possible planning permission for development, then ask about the local authority's attitude towards development, or for details of any applications that may have been made.

The vendor is concerned about the sale of his business, and is interested in the seriousness of your intent. If he thinks that you are not likely to pursue the enquiry, he will not be too interested in you or in answering your questions. If you are seriously interested, don't be afraid to give the vendors that impression; if you are not, do not prolong the visit beyond what normal courtesy demands.

Above all, remember this is a business relationship. Any subsequent negotiations will be better if carried out in a friendly atmosphere, which is particularly important when a handover is effected, but don't overdo it. All that is needed at this stage is to establish a good relationship, create a favourable impression and to glean as much information as you can that will help you to decide about proceeding further.

Inspecting the premises

This starts as soon as you are in the immediate vicinity of the business. You should be asking yourselves such questions as:

- How accessible is it to motorists and pedestrians?
- How easy is it to find?

- Is it in a good position for chance trade?
- What will a customer's first impressions be?

Remember that it is better to view first and talk to the vendors afterwards. It is probably advisable to clarify one or two points before the tour of inspection actually begins, such as: the position regarding a fire certificate; the fixtures, fittings, furnishings and equipment that will not be sold with the business; but try to leave other questions until later.

During the tour itself, concentrate on the overall picture rather than the detail, the size of rooms, the general state of repair and decoration, the quality and standard of furnishings and fittings, the type and condition of equipment, the convenience of layout and intercommunication. Cupboards and storage facilities are important and need to be examined.

Confine your questions during the tour to those necessary to clarify a point immediately, and avoid any comment between yourselves or to the person or persons conducting the tour. Concentrate your efforts on what you can see, rather than on what you can hear at this stage. Make a mental note of items that are likely to involve major expenditure or that do not match the model you created. Avoid asking confidential questions, particularly in front of, or within earshot of staff or guests.

If you are viewing with your partner or the family, you will be very eager to know their impressions either during or immediately after the tour. Unless the opportunity arises to express your views in private, be prepared to wait until after the tour. If you are convinced you do not wish to proceed further with this particular business, then ask for the opportunity to discuss things privately. If it is the unanimous decision not to proceed, then extricate yourselves as courteously and kindly as you can without offending.

The interview

Start off by finding out how much time that the vendors can give you to answer questions. You will already have prepared a list of questions. There will almost certainly be

additional ones that you will want to ask as a result of the tour. Concentrate on questions that help to determine the suitability of this business, particularly if time is limited.

Do not be afraid to ask supplementary questions if the answers you receive need further amplification, nor to make any notes. Be careful to avoid two or more conversations developing; it is important for all present to hear all the answers and information given.

You may find that vendors offer advice on the operation of the business and other matters of interest. It is useful to know this advice is available, and could be followed up later if you do decide to make an offer, but unless there is time try to concentrate on obtaining the information you seek.

At the end of the interview you will need to advise the vendors what you propose to do. Obviously they would not expect you to make any immediate decision, but can reasonably expect you to give some indication of your intention. You may have found out from them if there have been other enquiries and if anyone has taken an option to buy. You may wish at this stage to be given an option. If you are going to return home to think about it, then you should be able to give them an indication of how soon you will be able to advise them of your decision. Whatever your intentions, make sure that they are fully understood by both parties. Remember that, in any case, you will be advising them through the agent, not directly.

Assessing the potential

IN THIS INDUSTRY as in any other, it is essential to be aware of the change in customers' needs and tastes so that products or services offered can be changed to satisfy them. The good proprietor is the one who is constantly aware of this and can effect changes, often imperceptibly, and continue to maintain or expand business.

It is often said that a business never stands still, it is either growing or contracting. However, without adding to the space available for trading, most businesses in this industry reach a point when they cannot expand. Bars are full in the pub, tables fully booked in the restaurant and all the bedrooms in the hotel are let. Without expanding the facilities, the only way to move is downwards.

The life cycle of the business

In manufacturing, the trading pattern of any product follows a cycle known as the product life cycle; from its inception sales of the product increase, reach a peak and then decline. The product is eventually taken off the market, often to be replaced by a 'new improved' version. Classic examples of this are soap powders and detergents.

This pattern is also true for small businesses in this industry. The life cycle of a speciality restaurant in a city centre has been estimated as eighteen months; after that it is likely to need re-vamping, a new image and change of style. Public houses go through their cycle of popularity, often coinciding with a change of landlord. Hotels follow the pattern, although the cycle tends to be longer because customers tend to use hotels less frequently.

In assessing the potential of a business, it is important to identify how far along the cycle it has progressed. Is trade increasing (in real terms), is it reaching its peak, is it passing its peak or is it on the decline? This can be reflected in the

accounts of the business, provided of course, they go back far enough to be significant. It is necessary to allow for distortion due to inflation, so that records of room occupancy and table covers may be a better guide.

The successful business

The go-ahead, successful proprietor will start a business and build it up to its peak. Because he is content with the quality of his life and his family are settled, he may carry on running the business, ploughing profit back into the business to improve standards in order to maintain trading levels. Such a business is well worth consideration.

The high flyer is more likely to become bored now that the challenge of building up the business has gone and will seek to move on to pastures new. He will naturally want to sell when the life cycle is at, or is passing its peak and he has reaped the rewards of his efforts.

The road ahead here is fraught with danger for the potential buyer.

First of all, the asking price for the business will be inflated. Price is normally based on three factors: the property, the fixtures and fittings and goodwill. Goodwill is basically the difference between the value of the property and its contents and the price the business is likely to fetch on the market. If the business has been operating at a high level of turnover, then the market or saleable value will be high, and the goodwill considerable. Unfortunately goodwill is purely a paper value that can disappear with the departing proprietor.

Secondly, if the peak has been passed and the business is moving into a decline, it will need capital injection in order to keep up trading levels. Unless this is provided, profitability will fall.

Finally, if the new proprietor follows a successful predecessor, he may be at a further disadvantage unless he can match those attributes and capabilities. Such a business needs careful consideration.

The not-so-successful business

There are basically two sorts of businesses which operate less successfully: the one which has been badly managed and the one which has not got the potential to succeed.

There are a number of businesses that have potential, but have not been well managed. A business of this sort is an attractive proposition to the buyer who has drive and enthusiasm and is prepared to work hard. The sale price is likely to be moderate, since the goodwill will be little; there is only one way that trade can move: upwards! It can, however, be an uphill struggle and there could be heavy costs involved in bringing the premises up to standard. There is the danger that you identify a business as possessing potential which it does not really have.

There are others which are not likely to succeed, even with the most enthusiastic management, either because they are badly sited, the layout is all wrong, the competition is too fierce or they are just uneconomical to run. Such businesses probably have a history of changing hands frequently, as successive owners have tried to make a go for one or two years, have then given up, leaving them sader, wiser and poorer for the experience. There are exceptions where eventually an owner will take the business on and make a success despite all its apparent disadvantages, but these are rare. Such businesses on the surface sometimes appear to be an attractive proposition to buy. The sale price is comparatively low, often the standards of furnishing, equipment and maintenance are high where a previous owner has poured money in to try to make it a success and, on inspection, it appears to be a bargain – but beware! Check the history of previous ownership, look very carefully at any evidence of good previous trading, and do not place too much credence on the present owner's reasons for leaving.

The 'nursery' business

There are some small businesses that tend to change hands fairly frequently and could be described as 'nursery'

businesses. This means that they are an ideal type of business in which to start in this industry, particularly if technical and business experience or funds are limited. They tend to be inexpensive to acquire, are simple and economical to run, but because of their size do not generate sufficient revenue to provide a really worthwhile living.

They might be an ideal 'stepping stone', especially for younger people without too many commitments. Often they can be run by one partner with part-time help from the other who continues in full-time employment elsewhere. They tend to change hands frequently because successive proprietors use them as stepping stones, but can be easy to dispose of when you are ready to move on to bigger things.

Other businesses

Not all businesses necessarily fit into the various categories described so far. They are the ones which are never likely to be quoted as great success stories, nor have a track record of failures, but are probably too large to be considered as nursery businesses.

These form the majority of small businesses in the industry. The level of trading or occupancy is reasonable, they are fairly economical to run and provide an acceptable living standard for the proprietors. They are usually well managed, of adequate standards to meet the needs of their particular market, and tend not to change hands too frequently. They can be and often are acquired by the wrong people who fail to make a success of them and generally move on fairly quickly, but this is not the common pattern of ownership.

Above all, whatever the business, remember that you are assessing the potential of a particular business for two main reasons. Firstly, you must decide if the business will fit in with your own long term plans for a future in the industry. Is it to be a once and only purchase or is it but a stepping stone along the way, and if so, how long would you expect to remain there? Is it positively moving you in the right direction?

Secondly, you have to consider it in the short and medium term. Will you be able to raise the initial capital to acquire the business? How much profit will it generate to fund that capital, enabling you to develop the business *and* provide you with a living?

The next section, *Making the decision*, attempts to help you to answer those questions.

Checklist 3
Interviewing the agent

Information the agent will require

To be of the maximum benefit to you in helping to find the right business, an agent will need to have a lot of information about you, your particular circumstances and the business you are seeking. Be prepared to give him full details of your model, including the twelve points discussed in Table 3 and the answers to the questions posed in Checklist 2.

Information you may want from the agent

1. The services he offers to potential purchasers.
2. Any particular type of business in which he may specialise.
3. The geographical spread of his services.
4. The method used in selecting businesses for forwarding details to you.
5. Any charge that he makes for this information.
6. Additional information he usually provides before viewing.
7. The arrangements you will need to make with him/the vendor before viewing.
8. The action to be taken after viewing.
9. The stage at which any financial information will be divulged.
10. The availability on the market of businesses similar to the one you are considering.
11. The likely asking price of the type of business you are considering.
12. Comparative asking prices and availability in different areas.
13. Advice on the practicality of your model.

Checklist 4
Information to be sought when viewing a business

On approaching the location

1. Its accessibility by road or on foot.
2. The ease with which it can be found.
3. Its position for 'catching' chance trade.
4. Likely first impressions for the potential customer.

Before inspecting the premises

5. The current situation regarding a fire certificate.
6. Any fixtures, fittings, furniture or equipment that are not included in the sale.

Inspecting the premises

7. The size of rooms, other space, access and intercommunication.
8. Possible costs arising from the need to replace/provide additional equipment, replacing/repairing fixtures, fittings and furnishings.
9. Possible costs arising from the need to redecorate.
10. The adequacy of cutlery, crockery, glassware, other kitchen and restaurant utensils, bed and table linen and other items in respect of their quantity and quality.
11. The condition of plant and machinery such as boilers, in respect of adequacy, age and state of repair.
12. The need for any structural alteration to meet immediate requirements.
13. The facility to extend or improve within the existing framework.
14. The convenience of layout, intercommunication, control.

Interviewing the vendors

15. Their reasons for leaving and future plans.
16. Details of past trading, supported by records available for examination.
17. Breakdown between the various services provided (food, liquor, accommodation).
18. Anticipated future trading and evidence of advance bookings.
19. The nature of the competition, its location and its quality (in the vendor's opinion).

20 Details of previous ownership, if recent.

21 Additional sources of revenue that may have been considered, but not implemented.

22 Local attitudes towards any expansion, previous planning applications and the results.

23 Details of recent improvements or extensions and effect on trading.

24 Methods used for advertising and promotion.

25 The age and history of the property, structural defects (in the past or existing), methods of sewerage, heating, cold and hot water supply, state of wiring.

26 Any exceptional weather hazards (flooding, gales).

27 Number and type of staff, conditions of employment, length of service, likelihood of leaving, sources of and ease of recruitment, rates of pay.

28 Type of meals and service, menu range and presentation, number of chance meals.

29 Details of licence, bar hours, fluctuation in trade, entertainment, gaming machines, music.

30 Division of duties and responsibilities between present owners, family and staff.

31 Details of suppliers, frequency of delivery/collection, reliability.

32 Attitude of the local community, and authority to business, industry, tourism.

33 Details of equipment that is not the owners' property (leased, hired or on hire purchase).

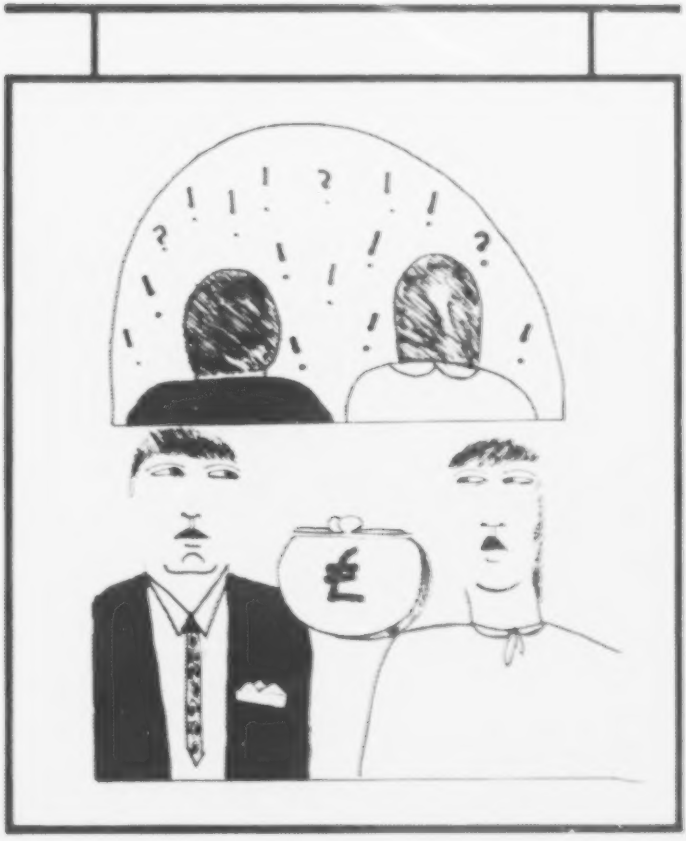
34 Details of any furniture or fittings that the owners will be taking with them.

The priorities set in seeking the information listed above, and the means of obtaining it will depend on the business, the vendors, and your skills in obtaining it through questioning.

The aim, first of the information is to enable you to compare the business you are viewing with the model you have built.

You will also have to consider how much time you will require to obtain information on personal matters such as schooling and recreational facilities for yourselves and your family.

Making the decision



What are the factors?

IF YOU have followed the processes recommended so far, here is a summary of what has been accomplished:

(a) You initially *examined the options* to decide on the sector of the industry you would consider.

(b) You created a *model of the business* that would match your particular circumstances.

(c) You actively set about *exploring the market*, viewed a particular business, and assessed its potential.

Now you need to decide whether or not to proceed towards the acquisition of that business by negotiating its purchase.

In examining the options in the first section, *The right type of business*, you asked yourselves four questions. In this section, it is proposed that you first of all ask yourselves three of those questions, again, but this time relating them to a particular business:

- Would we enjoy running this business?
- Would we be suitable to run it?
- Would we be capable of running it?

If you can answer them all favourably, you should then proceed to estimate the answer to the fourth question: *Can we afford to have this establishment?*

The first three questions

BY REFERRING to Checklist 1 on page 18, you will see that by applying questions 1 to 18 to a particular business, you will be helped to answer the first three questions posed above.

Would we enjoy running the business?

Checklist questions 1–10 apply to this question. Additionally now ask yourselves (and remember that all the family should answer): *What will it be like for all of us to live in this new location – as a permanent home, or for X years?* and, for a seasonal business, *What will we be doing with ourselves out of season?*

Would we be suitable to run it?

Checklist questions 11–14 apply here. Additionally ask yourselves: *Have we the necessary background, attributes and personality to match or improve on the present proprietors? From what we know of their customers (or the customers we are seeking to attract) will we be as effective, or more effective, in meeting their needs?* Thirdly: *Will we be able to maintain or improve on the present atmosphere?*

Would we be capable of running it?

During the visit you will have found out about the background and experience of the present proprietors, what their collective and individual responsibilities are. You may wish to consider employing additional staff to carry out functions they themselves fulfilled or doing work yourselves that was previously done by staff.

You should work out the breakdown of responsibilities and work between yourselves and any staff you wish to retain (if they are willing to stay). You will also have to estimate the time available to equip yourselves to be competent. Then answer questions 15–18 on the Checklist.

Can we afford this business?

THIS QUESTION will need to be answered in two parts. *In the short term:* you must estimate the capital needed to acquire the business and prepare it for trading. This should be estimated as:

- Capital provided from your own resources
- Capital to be provided from other resources.

In the medium term: you should estimate the profit that can be expected from the business in order to:

- Pay off the capital and interest on any borrowing
- Carry out any plans to maintain and improve the business
- Provide a living
- Meet any other commitments.

Can we afford to buy it?

THE COSTS involved in acquiring and setting up the business can be broadly considered under three headings:

- The purchase price
- Other acquisition costs
- The costs of preparing to trade.

The purchase price

The term 'purchase price' is used, but this could equally be the cost of acquiring a lease, the 'ingoing' to be paid to a brewery for the tenancy of a public house or the cost of equipment for operating a fast food franchise. The purchase price is normally shown in three parts:

- Value of the property
- Value of contents: furnishings, fixtures and fittings
- Goodwill.

The purchase price has already been determined by the vendor, but may be open for negotiation. You may already have information about this from the vendor or his agent. This will depend upon several factors: the number of other potential buyers, the degree of urgency with which he wishes to complete the sale and in some cases, sound evidence that the business is a viable investment at the price.

To what extent you try to reduce the asking price is for you to decide, and will depend in each case on the circumstances. Most good agents, although representing the vendors, will advise them as to what is a fair and realistic price to accept, but the vendor will make the decision. In order to assess for yourselves a fair price, it helps considerably if you have been examining closely the price of similar businesses on the market.

Other acquisition costs

These cover such items as stamp duty, professional fees, viewing and research costs, and the costs involved in

actually effecting the move. If bridging loans are involved, the interest payable on the loan will be another cost, and could be very considerable if for any significant period. Most financial advisers are reluctant to recommend the use of one if there is any uncertainty about the duration.

The costs of preparing to trade

In setting up a new business from scratch or in acquiring one that will involve considerable alterations, this can be a major cost. In addition to the actual costs of building or structural alterations and the costs of refurbishing and buying equipment, an allowance must be made to cover your own living expenses and any loan or interest payments that occur during the period between completion of sale and actually opening for business. Capital has to be available for survival until the revenue from the business starts coming in.

When acquiring an existing business, these costs will depend on similar factors. How soon will trading commence after completion of sale? In the case of a public house tenancy, trading commences within a few hours of handover. A seasonal hotel taken over at the end of the season could mean six to seven months without any money coming in.

The state of repair of the property, the quality of the fixtures and fittings, and equipment must also be considered. How much do you propose to replace? What additions are required? Are you proposing to redecorate?

There is also the need to consider the amount of working capital the business will require. This is the money actually needed in the business in order to enable you to operate. In accountancy terms it is defined as the difference between current assets and current liabilities. Current assets are normally:

- The actual cash in the business (floats, petty cash)
- The balance in the bank (current account)
- The value of the stock (at cost price)

- Debtors (money that is owed to you by customers).

Current liabilities are normally:

- Creditors (money that is owed by you to suppliers).
- Bank overdraft (on current account).

In many small businesses the working capital is controlled by an overdraft, and if you wish to negotiate this facility with your bank manager, it is usual to prepare a cash flow statement or forecast which estimates on a monthly basis the amount of cash required in the business at any given point in order to meet requirements.

In this industry the working capital needed for most small businesses is comparatively low.

Obviously it is advantageous to raise as much capital as you can from your own resources, and you will have already calculated this. In order to meet the total costs required to set up the business, the balance will have to be found from external sources, and it has already been suggested that your bank manager should be the first person to approach for advice, and possibly the one who will be prepared to fund your venture.

The bank manager, or other source approached for funds, will want some evidence to indicate that the capital he is providing is secure, and that you will be able to repay the loan on time and meet the interest charges. He will therefore want to know how you see the business operating financially. By preparing a feasibility study, you will be killing two birds with one stone: convincing your bank manager that the proposed business is sound, and confirming to yourself that the particular business you are considering will meet your own requirements.

Most banks operate a loan scheme that will be suitable for your particular needs. One bank operates a business development loan scheme which is designed especially for the small businessman. It operates on a fixed interest rate for up to ten years, so that the monthly repayments are fixed for the duration of the loan, regardless of whatever fluctuations there are in the base rate of the bank. Facilities can sometimes be

negotiated where the repayment of the loan capital is delayed until after the first year of trading.

Your bank manager will advise on the various schemes that are in operation in his particular clearing bank, and there is nothing to prevent you from 'shopping around' to see what other schemes are available from other clearing banks, merchant banks, finance houses, insurance companies, and in some cases even building societies. Most banks have literature available free of charge that will explain these facilities, and your accountant or business agent can give you details of other sources to contact.

You may well consider that you would rather make your loan arrangements in the area where you are proposing to set up in business. Your bank manager, through his regional office, may be prepared to recommend a particular branch in the area where the manager has had considerable experience with small businesses in this industry. Such managers will usually have knowledge of potential in the area.

You may also wish to discuss the provision of overdraft facilities to cover the fluctuation in your working capital requirements, and the preparation of a cash flow statement will help your case.

One of the problems in negotiating a loan is to decide on the period over which the loan is to be repaid. This will depend on your own long term plans. If part of your future planning is further development of the existing business or moving on to a bigger business, then it is probably advisable to repay the first loan before you need to negotiate for a second and possibly larger one. Long term loans are not favoured, since the individual monthly repayments for periods in excess of ten years do not work out at much less than for ten years.

Above all, when calculating your loan requirements, do not try to cut corners. A slightly larger loan than required is probably preferable to being short of funds at a critical stage of the development of the business.

Can we afford to run it?

PROFIT is a very personal thing. Some businessmen measure it as a return on the capital invested in the business, some think of it as a percentage of sales. In this industry there are many small businesses that would not measure up too well against either of these yardsticks.

What do most people starting up in a business want to achieve?

First of all they want the business to survive, and in order to do so the bills must be paid for supplies and overheads. Staff must be paid and the family fed, housed and clothed. Tax demands must be met, and loan capital and interest repayment arrangements must be honoured.

If that is all the business can provide, then why run it?

Obviously they want it to do more. It needs to generate additional profit to enable it at least to be maintained at its present standard, but preferably to allow for raising standards and even for expansion. It also needs to be able to provide the quality of life for its owners that will make the running of it all worthwhile.

However, it is unlikely to start providing sufficient profit to achieve all this immediately. Some may be fortunate enough to supplement this deficiency from capital resources until profitability reaches the required level. Most will have to take some fairly hard decisions in agreeing priorities: a car or a new carpet, a holiday or redecoration of the bedrooms?

At this stage it is unwise to get down to too much detail. A lot of the groundwork should have been done when you were creating the model of the business that would best suit your needs, and you should have a lot of information and facts and figures to work from. What you now require to do is to put

those facts and figures together and estimate the profit that this particular business is likely to generate for the next few years. If it is not likely to be sufficient for you to achieve your business and personal targets, then you must think again. Either negotiate a lower purchase price or forget all about this one, no matter how attractive it seems.

Preparing your estimates

THIS IS often where the mistakes are made; we are not all financial wizards, and it involves some guesswork. You might get away without doing it at all, but this is probably a major reason why the failure rate among small businesses is so high.

If you are not very good at putting figures together, then get help from someone who is. If you don't know how to start, then seek help either from a professional adviser who may do it for you, or ask the HCTB. They can help you learn to do it for yourself.

Sales

The first word to stress is *caution*. Nearly all sales forecasts, even those prepared by experts from reliable data tend to err on the side of optimism.

You should have records from the previous owners, and discount any stories that these were produced for the VAT man and Inland Revenue only and do not reflect the true position because the bank manager will not accept them. If there are no records but the total figure in the annual accounts, then be a little suspicious and look for other information such as booking charts, the hotel register, table reservations, bar takings. If there are no audited annual accounts, then have second thoughts.

Records of *volume of sales* are preferable to takings. Takings over a period will have been distorted by inflation, and a healthy looking trend of growth in takings could still mean a decline in the number of beds filled or the number of meals served, or the number of customers using the bar.

If records are broken down into weeks or months, then these are better for forecasting than one total for the year.

Projecting sales

Again *caution* cannot be stressed too strongly. A common mistake is to assume that business is likely to pick up as soon

as you take over. Unfortunately the reverse is more often the case.

It is natural to suppose that the services you propose to offer will be an improvement on your predecessors, but will that be true? Even if it is, how are potential new customers going to know this? The reality is that if your predecessors were reasonably successful, their particular customers liked what they provided and the way they provided it. Your first hurdle is to prove to them that you can maintain that; so be prepared for an initial downturn.

How quickly this will happen and how soon you will recover will depend on the frequency and regularity of the visits from your customers.

In public houses, invariably there is an initial upsurge while you are 'inspected' by the locals. They come in to see what the new people are like. You may lose some, you may gain some. If you can match your predecessor in most respects the change is not likely to be too significant.

In hotels, particularly holiday hotels, the first season is not likely to improve unless the underlying trend of previous years was towards improvement. You will lose some of the regulars who decide that a change of ownership is the right time to try something different. You may gain some by increasing your advertising or by providing a facelift to improve your share of the chance trade, but results can be very disappointing.

Restaurants are a likely exception, possibly because they tend to have a shorter life cycle than other businesses. Experienced restaurateurs will usually recommend the slow approach to developing a new business, and let trade build up gradually. This is advisable, particularly if it is a new experience for you. Learn to do the job well and learn what the customer wants before you lose your reputation by trying to cope with a full house when you are not fully competent. Let your forecast reflect this slow build-up.

To sum up, unless you are following a very poor predecessor, expect a fall in business in real terms until such time as your regular customers have re-visited you at least

twice, and then only anticipate an upturn if you are certain that you will be offering an improved service that is still value for money.

Costs

If previous records are available, and you are not proposing any drastic change in the way the business is to be run, then it is probably easier to forecast these. In the accounts, it is likely that costs are accurately recorded, even if there has been a 'fiddle' on the sales side to cheat the tax authorities. Let us consider projecting costs under three headings: capital costs, fixed costs and variable costs.

Capital costs

The legal definition of capital costs is complicated, but can simply be described as costs that would not be allocated for tax purposes against one year's trading only. For example, the purchase price of a new cold store would not be written off against one year's trading as the benefit that would accrue would be spread over a number of years. This would be considered a capital cost.

For purposes of estimating costs, you want to know what major costs you are likely to have to meet to begin trading, such as replacement of furniture, new mattresses and bedding, curtains, major kitchen equipment etc.

In other words, consider all the costs you are ready to incur so as to get the business right for you for trading. It may well be that you decide not to incur all that cost immediately. You may decide that the old broken down dish washing machine can last six months before you replace it. However, it is necessary to list all items that you decided on your visit would need to be replaced or provided, indicating when that would be done and what the likely cost would be.

These then are the costs that are to be met as part of the process of acquiring the business and should not be included in estimating the profitability.

Fixed costs

These are the costs incurred which are not affected by the number of customers you serve or beds you fill. Rates, rent, insurance and heating are some of the obvious ones that spring to mind. In a small business in this industry it is usual to think of all costs *except* the costs of food and drink as fixed, even though costs, such as fuel, are affected by the amount of trade you do. Laundry is another example of a cost item that will vary according to the number of guests, but again it is easier to think of it as a fixed cost at this stage.

If there is no drastic change in the way the business is to be run, and previous records are available, then the likely increase in these costs will depend on normal price rises. Some may be known in advance, most will have to be estimated. This again is something that you should have considered when you were creating your model. If there are particular changes planned in the way you run the business, doing your own laundry instead of sending it out for example, then you will need to work out the saving in cost another way.

If previous records are not available, or if the business is starting from scratch, then try to find information on what the overheads are in similar businesses.

Variable costs

In any catering business and in the licensed trade, food and drink are your major cost items. Profitability is most likely to go awry when the gross profit from the sales of food and liquor is insufficient and proper control of this aspect of business is most important, but the immediate problem is how to estimate what these costs are likely to be in the particular business you are considering.

You may, of course, have the records of the present owners. If you intend to provide similar meals at similar prices, allowing of course for inflation, giving the same size portions, then you may use their percentage food costs in order to do your own sums.

If you are thinking of varying the type of meal they serve,

the size of portion served, the quality of the food bought or the price to be charged (allowing for inflation) then you will need to work it out more thoroughly. If you are starting from scratch, then you will also have to start your costing from scratch too.

There are certain 'rules of thumb' applied to gross profit margins that can be found in various catering operations in this industry. From experience, the fluctuation within the industry, even within groups of similar businesses is so wide that they can only hope to give you a very rough indication. In creating your model, you should have worked out in detail the type of service you propose to offer, taking into account the price to be charged, the food to be served, the size of portions to be given and making an allowance for wastage, and then calculated the gross profit margin you would set as a target for your business. You can probably assess how closely the model differs from the business you are considering in its catering operation, and the extent to which this profit margin will change. If you have the time, you may wish to do your sums all over again.

The same applies to the sale of liquor as to the sale of food, except that it is not as complicated. Drinks are sold in prescribed measures, so that the size of portion is specified. Again, should you be considering the sale of liquor as part of the business you propose to run, costing your liquor should also be included in creating your model.

Break-even chart

A simple technique for assessing profitability is to construct a simple chart that will show at what stage of trading a business will break even (when sales = costs) and what profits can be expected at varying trading levels, see Example 1 overleaf.

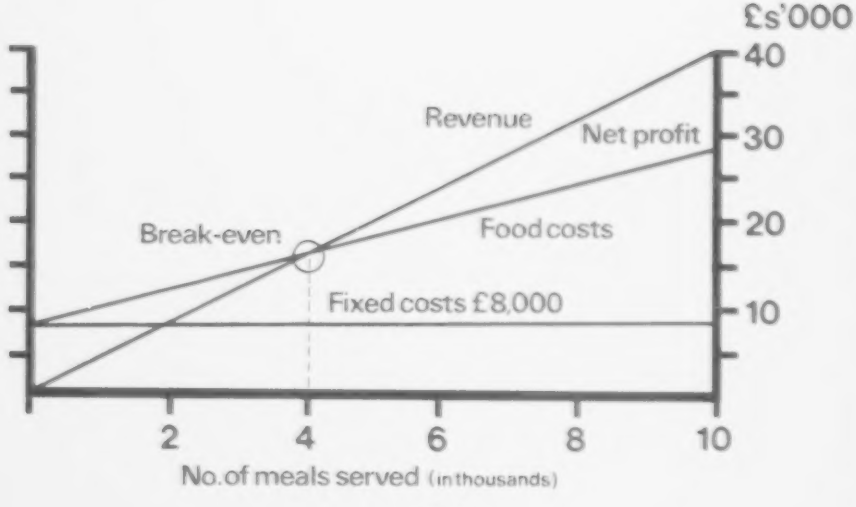
Example 1
Break-even chart

Background information
A cafe which can serve up to 40 people is open for 250 days per year, for dinner only. The average selling price of a meal is £4.00. The average cost of a meal is £2.00. Fixed costs are £8,000 per annum.

The problem
How many meals must it serve to break even?

The solution
The average meal costs £2.00 and sells for £4.00. Therefore the gross profit per meal is £2.00. In order to cover overheads of £8,000 to break even, 4,000 meals must be served in a year (4,000 × £2.00).

This is represented graphically on the following chart. The break-even point of 4,000 meals per year is shown, an average of 16 per day. By reading off the chart, it can be seen that it will make a profit of £2,000 if 5,000 meals are served per year, an average of 20 per day; £4,000 if 6,000 meals are served (24 per day); up to a maximum potential of £12,000 profit if it is full every day (10,000 meals served, 40 per day).



The decision

HAVING COMPLETED your estimate and considered the answers to the three questions posed at the beginning of this section you should be in a position to make a firm decision about proceeding further. Remember, however, that the most you can do at this stage is to make an offer, that it is still a long way from completing the contract, and either party can still withdraw.

If you have the opportunity, consult with your professional advisers. Check out your estimate with your accountant and ideally, with someone experienced in this type of business. Clarify any points with the business agent. Show your estimate to your bank manager and, of course, bring in your solicitor at an early stage as he is the one who will be carrying out the exchange of contracts on your behalf.

If there is the time, do not hesitate to confirm any of the information with either the vendors or the business agent. Make a further visit if you consider it of value.

And, finally, remember that the decision to proceed must be a unanimous one. If any of the partners are doubtful or uncertain, then take more time to examine the facts.

Time is important at this stage, time can be of the essence, and another potential purchaser may beat you to the post if you dally too long.

One of the main purposes of spending time building up your model in the first place was to help you to make a speedy decision later.

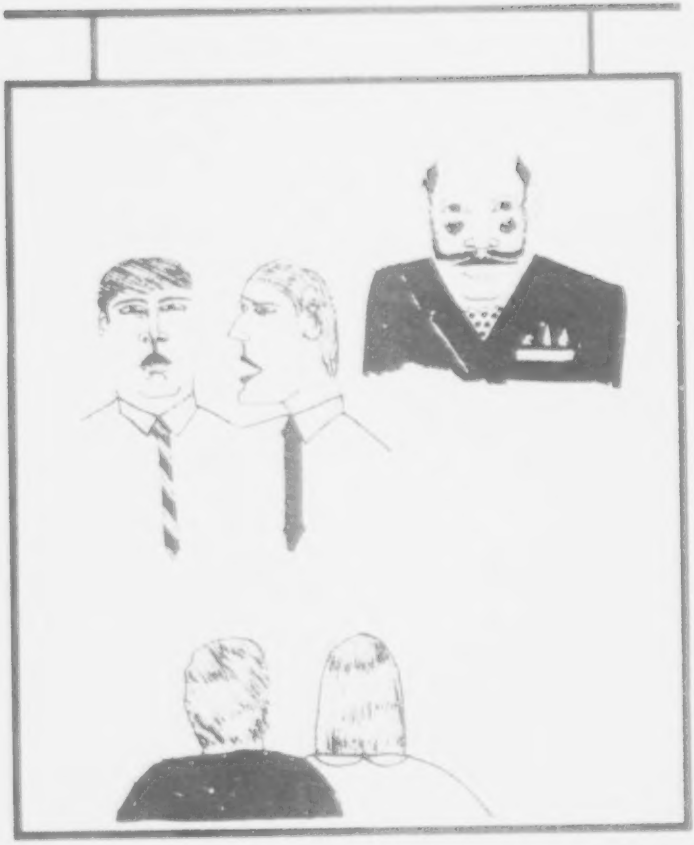
If the business you have examined matches the model, and you had previously done your homework properly, then you should be able to make up your minds without too much delay, and with confidence.

Checklist 5
Making the decision

1. Will you enjoy working in this business?
2. Will you get on with the customers?
3. What will be the working hours?
4. How demanding will the work be?
5. Will you be physically and mentally capable of sustaining it?
6. Will you have enough free time for the family?
7. Will they enjoy their new life living in this area?
8. How will it affect your privacy?
9. How will it affect your other interests?
10. Will you have to sacrifice comfort?
11. Are you right for this business?
12. Will you get on with the customers?
13. Will you be able to maintain the right atmosphere?
14. Will you be good hosts?
15. What are the skills needed in this business?
16. Which of them will you need to acquire?
17. Can you acquire them in time to take over?
18. How will you be able to acquire them?
19. Have you secured sufficient capital to make an offer?
20. What will it cost to fund the borrowing?
21. What profit can you expect, and will that be enough?

The questions are similar to Checklist 1 but now relate to a specific business.

Negotiating the purchase



Making the offer

ONCE YOU have decided to make an offer for a business, there are three persons you will need to contact immediately: your business agent, your solicitor and your bank manager.

The agent

The agent will discuss the offer with you. He will be advising the vendor, and will want to be sure that if the offer is acceptable to his client, that the sale can proceed satisfactorily for both parties.

Lack of clear understanding and agreement at this stage may subsequently lead to an offer being made through your solicitor with no end result – except a heavy bill for legal services!

He will obviously need to know the amount you are offering, but you should also advise him of any conditions you may wish to attach, for instance, delaying the date of completion. You should have ascertained the vendor's attitude to such a request when viewing the business, but it is important that the agent is advised formally.

He will also want the name and address of your solicitor and you will require the name and address of the vendor's solicitor.

A great deal of time and effort can be saved if you are able to give the agent all the information he wants. It is a help to check with him at the initial interview exactly what he will want to know from you at this stage.

Instructing your solicitor

WITH THE GROWTH of legislation, lawyers tend to specialise more and more. Most of you are probably conversant with the processes involved in conveyancing of properties, having at some time bought or sold a house. Most solicitors may be fully conversant with conveyancing property, but not necessarily so with the conveyancing of a business. It is suggested then that you select a solicitor who is practised in the conveyancing of businesses, particularly of the sort you are proposing to acquire.

It may also be more convenient to use a solicitor whose practice is near to where you will be living during the conveyancing process. There will be papers to read and sign, and it is easier and quicker to call into his office when required than to try to do it at long range.

Instructing a solicitor may sound rather grand to the layman, but that is exactly what your solicitor will want you to do. The more precise the instructions given to the solicitors by both the vendor and the purchaser, the more likely it is that the sale will be completed smoothly and within a reasonable period of time. The legal profession is too often accused of being exceedingly long-winded in getting things done. Many delays are caused by solicitors having to refer back to clients to clarify minor points that should have been made clear in the first place; or because clients change their minds about terms or conditions in the middle of the process.

It is advisable at an early stage to decide upon the solicitor you propose to use, advise him of your intention to acquire a business, and confirm with him the information he is likely to require from you when the offer has been made. This will then give you time to prepare to obtain it without undue delay. The information is likely to include:

- The names and addresses of all parties (purchaser, vendor, vendor's solicitor and the agent)

- ☐ The title, address, and if possible, a plan of the intended business
- ☐ Whether the property is freehold or leasehold
- ☐ If leasehold, a rough outline of the terms of the lease (tenure of lease, current rental, date of next rent review, and terms and conditions regarding repair and maintenance of the property)
- ☐ Copies of licences
- ☐ A list of fixtures and fittings (with details of those on hire purchase or credit sale)
- ☐ A breakdown of the purchase price (property, fixtures and fittings, goodwill)
- ☐ Confirmation of the financial arrangements you have made
- ☐ Details of the staff employed and their conditions of employment
- ☐ The future intentions of the vendor.

Your solicitor will also wish to be sure that there will be no difficulties in what you propose to do with the business once you have taken it over. Searches have to be made to ensure that you are able to trade as you plan, as well as the usual ones relating to property transfer.

There are invariably difficulties if the transfer of a business is dependent on the sale of other businesses or properties involving either of the parties. Nobody wants to be left with either two homes or no home to live in, and it is the same with businesses. Timing can be critical, especially if it is dependent on the successful completion of a chain of business or property deals.

There are other considerations. The solicitor will want to know on whose behalf the purchase is to be negotiated. Are you acting alone, or on behalf of yourself and partners? Who are the partners? Is there a contract of partnership and if so, what are the terms? Are you forming a limited company?

He will also help you to negotiate the transfer of any existing licence, or prepare an application, if one is required.

It is customary to ask him to handle this on your behalf or to instruct an agent to act for him.

Two final pieces of advice. The period during which a transfer is being negotiated can be very trying for both the vendor and the purchaser, and ill-will and bad feeling can easily creep in. Try not to be niggardly or penny-pinching over minor points, and deal with enquiries from your solicitor as quickly as possible. When he asks you to read and sign papers, read them very carefully indeed, and if there is anything you do not understand ask your solicitor to explain it to you.

The bank manager

BEFORE YOU actually make your offer, it is essential that you have secured any loans necessary to meet the purchase price and other acquisition costs. In *Your own circumstances* (page 23) it was suggested that you consult your bank manager at a very early stage.

Let us assume that you are negotiating your loan through a bank manager. You have already advised the manager of your intention to seek a business, have shown him the model you have prepared, and from the favourable noises he has made, you are confident that he will provide the funds. During your search for the right business, you have kept in touch with him to make quite sure that your source is secure.

You have now found a business that you want to buy. You have done your sums, prepared a forecast of trading, worked out how much you require to borrow, what overdraft facility you will need, are confident that it is viable and you would be able to meet the loan repayments. You now need to see the bank manager to negotiate the required funding.

It may well be that the vendor is in a hurry to sell, and you will need to make your offer quickly. The exploratory work you have already done will stand you in good stead and the sympathetic bank manager will pull out all stops to meet your deadline.

Remember, however, that he has a duty to his bank to ensure that the loan is reasonably secure, and he will want to satisfy himself that by arranging this loan for you he is not putting a millstone round your neck. Banks are loth to foreclose on any loan, particularly one to a small business, and your success in your new venture is important to him too. So he will want to see your feasibility study, to check for himself that it is based on sound argument, to assure himself that the venture has a fair chance of success. He will want to meet

other partners to make sure that they are equally committed and likely to help the business to succeed.

Not only will he be assessing the success of the business on your calculations, but also on your potential to manage its affairs. Good presentation, and evidence that you have planned and thought it through logically will be in your favour. Your presentation should be in writing; a suggested format for this is shown in Table 4. One of the advantages of using a bank manager who has had experience in negotiating loans for small businesses in this industry is that his previous experience will be invaluable to you as an independent assessment of your chances of success. You will also need to take other professional advice.

Table 4
Presenting the case for a loan

Description of the proposed business

1. The title of the business and the address (photographs and plans if available).
2. A general description including type of business, its size, services and facilities offered (supported by agent's information sheet, brochures, etc).
3. The asking (or agreed) price.

Present operation

4. The management team (and your assessment of them).
5. Their reasons for leaving the business.
6. All information available relating to past performance (accounts, occupancy figures, etc), the source of this information and an assessment of its reliability.
7. Your own interpretation of the accounts, indicating where you consider certain cost items are too high (or too low) and your reasons for this.

Proposed operation

8. The management team (with details of previous background and relevant experience).
9. An assessment of the potential of the business (with any evidence of research).
10. How it is proposed to develop the potential.
11. Changes proposed in the current operation (type of operation, staffing levels) and how this is likely to affect sales and costs.
12. A forecast of the sales pattern.
13. Future development and when projected.
14. A projection of the profit and loss accounts for the next three years, indicating the net profit *before* loan repayment.

Funding arrangements

15 Details of the capital to be provided by yourself (showing sources).

16 Details of any capital to be provided from other sources (including evidence and repayment arrangements).

17 A simple balance sheet indicating the additional borrowing requirement.

Loan/overdraft facilities required

18 The size of the loan required and the arrangements sought for payment of interest and repayment of capital.

19 The overdraft facilities required, supported by a cash flow forecast.

The accountant

YOU WILL already have considered what arrangements to make regarding the financial records of your business. Apart from the need to keep records to satisfy the requirements of the Inland Revenue and Customs and Excise, you will want to keep records to help you control your business.

The tax accountant serves two purposes. He will help you to prepare your accounts and manage your financial affairs, in order legally to minimise the amount of tax you pay. He will also be able to offer you advice on the financial operation of your business to match your aspirations.

A common error is to think of the accountant only as someone who puts your accounts into a presentable form for income tax purposes at the end of each financial year. In many instances, proprietors of small businesses have not even thought of employing an accountant until the end of their first year of trading; and they were poorer for the experience.

If you do not already employ an accountant, then you will need to consider consulting one at an early stage. Again the choice of accountant should be governed by two factors: his accessibility to the business and his experience in handling the accounts of similar businesses. A local accountant has the advantage of being not only easily accessible, but if he is a good accountant, likely to have a good relationship with the local inspector of taxes.

Many people setting up in business in this industry prefer to retain an accountant they have used previously. This may mean he lacks accessibility and local knowledge, and indeed may have no experience of business in this industry. Most accountants accept that a client leaving his area and moving into a new type of business is likely to change his adviser and will help you in finding someone suitable. You could consider the vendor's accountant, after all he knows the business.

Insurance

INSURANCE is a very important consideration. For those of you who have not previously run your own business it may well be very different from your previous experience with insurance; even to those of you who have, the needs for insurance in this industry can still be very different from your previous experience.

Like all other business areas, it is suggested that you use the specialist in the form of the insurance broker. He has a deep knowledge of the subject, and you can employ him to provide the most suitable cover to meet your particular needs at the most beneficial terms. The great advantage you have is that you do not have to pay for this service; he earns his living from the commission he gets from the insurance companies. Again, it will pay to select a broker who specialises in insurance for businesses in this industry.

Many companies provide comprehensive policies that cover contingencies that you might never think of on your own. Most of the banks now offer advice on insurance matters and operate their own insurance schemes. As part of building up your model, you should consider what is available, doing your homework well in advance.

Be sure to get your insurance cover in good time. There is the story of a purchaser completing the sale one day, and his hotel burning down the next, he had decided to leave the insurance until he had settled in. Such a story is hard to believe, because a solicitor, or anyone lending money to the business would hardly have allowed this to happen; but it could be true, and it certainly illustrates the point.

The surveyor

ANOTHER FORM of insurance is to have the property properly surveyed. A full structural survey is not cheap, but if you are investing a great deal of your money (and perhaps some of the bank's) in a property, it would be foolish to find out afterwards that because of a defect you were not aware of, you now have to face expenditure that could force you out of business.

Banks and other sources of finance usually insist on a survey before making a loan, in order to secure their own investment. This, however, is not normally a full survey.

Clearly it would not be practical to carry out a full survey on every business you consider; you may look at a great number before you make your final choice. But especially if the building you are interested in is old, you should seriously consider having a full survey carried out before the contracts are completed, and make it a condition that the sale is subject to a satisfactory report.

If you are having a full survey carried out, do not try to cut corners on cost; use a fully qualified surveyor. Not only are you likely to get a better job done, but you will also be adequately covered by his insurance should you suffer any subsequent loss through his negligence or error of judgement.

Other professional advice

THERE ARE other sources of professional advice on which you can call. You may consider the services of a stocktaker, particularly if the sale of liquor is a significant part of your business. If you take over a tenancy most breweries will insist that a stocktaker represents you at the handover. At any handover, his experience and advice can often save you far more than the fee for his service. He can be very helpful in guiding you in control systems and getting the right gross profit margin for sale of liquor in your particular business, and you may find it advantageous for him periodically to take stock for you.

Once you are far enough advanced in the negotiations it is also worthwhile making contact with local authorities with whom you are likely to come in contact such as the Environmental Health Officer, the Fire Prevention Officer, the Trading Standards Officer, and if you are contemplating any changes, the local Planning Officer. If you have not had previous experience of VAT returns, the Customs and Excise can give a great deal of help, and why not complete your list by visiting the local office of the Inland Revenue and Department of Health and Social Security?

The handover

ONCE NEGOTIATIONS are well advanced, you will almost certainly wish to visit the business again, possibly several times. Try to do so discreetly; it can create ill feeling unless it is handled properly, but it will be very important to take full benefit of any help that your predecessors can give.

In some cases the new owner's wife has negotiated a period of actually working in the business, sometimes for several months, in order to get the experience and confidence she has needed. This work is usually unpaid, of course. In other cases, retiring owners have left funds in the business as an investment. Others have been prepared to help out part-time until the new owners are settled in. It not only ensures a smooth handover, but can be very good for customer relations as well.

It would be unwise to think that all handovers are like that. Leaving a business as well as taking over a business can be a traumatic and emotive experience, and often antipathy is created that would never happen if the two parties met in different circumstances. There are also a number of unscrupulous vendors who will try to 'put one over' on the unsuspecting buyer.

There have been a number of instances where substitutions of equipment or fittings have been made prior to handover. Such as the case when new, full length, heavy velvet curtains in a residents' lounge were substituted for thin ones fit only for the rag bag; or good beds being removed and replaced by broken ones with badly stained mattresses; and other similar instances.

You could also find yourself committed to future business of which you are not aware or which you may not want; it is therefore important to obtain full details of all future bookings (and enquiries) which have been accepted (or offered) by the outgoing owners. In this connection you should discover:

- What services have been accepted/offered/promised?
- What terms have been quoted/agreed?
- What particular arrangements have been made?
- What deposits have been made?

... together with copies of any correspondence there may be. You should also enquire about any formal arrangements that may exist, such as special rooms or special terms for any regular or favoured customers.

It is too easy to take things on trust and to think that everything you see at the viewing is part of the contents, only later to find that the food mixer is not on the inventory; or that the TV set in the residents' lounge is on hire and the payments are overdue. One of the reasons why the searches can take so long is that your solicitor has to ascertain the state of ownership of the contents as well as the property, but unless you examine the inventory in detail, you may not notice that the television set did not even appear on it.

So, be very careful: do not be too trusting, but remember that there must be a degree of give and take on these occasions. If you are seen to be careful, giving attention to detail and have been asking the right questions, you are less likely to suffer this type of deception. However, be careful not to lose out on the valuable help and advice your predecessors may have to offer you by treating them like potential criminals.

The inventory

An inventory is normally prepared by the agent, and is agreed by both vendor and purchaser. The inventory lists, item by item, the contents agreed as part of the sale.

It is too easy to see pieces of equipment or furniture at the time of viewing that do not subsequently appear on the inventory, particularly if the vendors are themselves moving to a similar business. The vendor, at the time of viewing, has probably not given too much thought to exactly what will be left behind. But it does pay to ask at the time of viewing to get some indication of what will need replacing.

103

Problems relating to any equipment on lease, hire purchase or free trade loan should have been cleared by your solicitor, and you should be aware of any such item that cannot therefore be included in the sale. It is advisable, however, to ascertain from the vendor at a fairly early stage if there are any such items, as you will need to consider their replacement. You may wish to retain such items under new agreements or continue existing agreements.

Another point to consider is the subject of glassware. This is not normally included on the inventory because of the likelihood of breakages occurring between the time at which the inventory is taken and the actual handover. It is recognised good practice in this industry that there should be adequate glassware available in the bars and stillroom to serve the existing level of trade. It is a moot point, and is a question of trust and good faith.

Glasses in unbroken cases in store are normally included in the stock, and should not be considered as part of 'the adequate glassware on the shelves'.

Once the inventory is agreed, it is then a different matter. It is advisable to visit after the inventory has been agreed or is on the point of being agreed in order to ascertain exactly what replacements or additions you will have to provide. Be sure that the description on the inventory is reasonably detailed, and take careful note of the state of all you see.

The good agent will attend the handover and accompany the purchaser in checking the inventory prior to the departure of the vendor. When you are contacting the agent to discuss the offer (see the first part of this section) it may be worth your while to confirm that he will actually be present on the day.

Taking over a tenancy

There is usually a set procedure laid down by the brewery for the process of handing over a public house from one tenant to the next. In this case there are three parties represented: the brewery, which is the owner of the property and some of the fixtures and fittings, and the outgoing and incoming tenants,

who are negotiating the sale of the remainder of the fittings and the stock.

What probably makes this process rather unusual is that it is completed in a comparatively short time, and that in the process of this the business is to be kept open for service to the public.

Both tenants with their valuers and the brewery representative tour the premises together, starting well before opening time. All fixtures and fittings and the stock are valued and agreed between the two parties, with the brewery representative acting as an adjudicator if necessary.

At opening time the new tenant who is now officially in charge of the pub has to see that the trickle of curious customers is served and at the same time to complete the handover if it is still in process. As it is likely that his wife is at the same time moving into the private quarters with her family, it can be an unforgettable experience.

One anomaly is that the incoming tenant is only able to be given an approximation of what the 'ingoing' is likely to be, the actual figures being decided on the day.

This is an old traditional approach to the handover of a business which, surprisingly enough, works well largely due to the impartiality of the brewery representative and the skill and experience of the valuers, but it can be a traumatic experience for the new tenant – happily one which most survive.

The most important advice that can be given to the tenant is to know before the day, all he can about pulling the first pint, so that he can concentrate on the business of taking over and not be worrying about how to serve the customers.

Negotiating the purchase in Scotland

BECAUSE the legal systems of Scotland and England are separate, and vary in many respects, the procedures recommended in this section will not apply equally in Scotland in respect of the sale and purchase of property.

If you are planning to acquire a business on 'the other side of the border' from which you live, a local solicitor is not likely to be able to represent you. Lawyers qualified only in English law may not practise in Scotland, and the reverse applies equally. There are not many qualified to practise in both countries. Some larger firms, particularly nearer the border, have agents who will act on their behalf 'over the border'. Your own solicitor, or the agent with whom you are dealing will provide advice on who can represent you.

The main difference is:

- *In England and Wales*, an offer is normally made 'subject to contract'. If accepted, the vendor's solicitor will then prepare the contract. This, however, is not legally binding on either party until, after further negotiation, a written mutual agreement is reached, or in legal terms 'contracts have been exchanged'.
- *In Scotland*, it is normal practice for the vendor to fix a closing date, by which interested purchasers are invited to submit written offers to either the vendor's agent or solicitor. Once the vendor has accepted one of the offers, this becomes a legally binding contract.

What does this mean to the purchaser? At least he is protected from any 'gazumping' by the vendor, but on the other hand he is now legally bound by a contract that has been drawn up by his solicitor, and there is no legal right to further negotiation.

It is, therefore, even more important in Scotland that the solicitor you instruct is well practised in conveyancing businesses in this industry so that he can offer the best advice

on the terms and conditions to include in the offer you make. Equally, you must be sure that your instructions are complete and that he is aware of *all* the terms and conditions you wish to be included.

It is also important when discussing your offer with the vendor's agent that you acquaint him with *all* terms and conditions you propose to include in your offer, so that he can advise you on the likelihood of the vendor's accepting them.

The advice offered in this section alone will not be sufficient to prepare you for the legal implications of the negotiations, particularly in Scotland. It is essential that you arrange for the services of a suitable solicitor in good time and discuss the whole matter fully with him.

Checklist 6
Negotiating the purchase

1. Have you completed your feasibility study?
2. Have you consulted all partners/the family on the decision to go ahead?
3. Have you contacted your bank manager (or other source of finance) to ensure that the purchase price is available?
4. Have you prepared the information for the business agent?
5. Have you made an offer through the business agent?
6. Have you prepared the information for the solicitor?
7. Have you instructed your solicitor?
8. Have you arranged for the services of an accountant?
9. Have you made arrangements to insure the business?
10. Have you considered a full structural survey?
11. Have you arranged for the services of a stocktaker/valuer for the handover?
12. Have you consulted with the various departments of the local authority?
13. Have you prepared yourselves sufficiently for your own tasks in running the business?

Conclusion

Conclusion

FROM THE DAY you learn that the vendor has accepted your offer up to the moment you see his car driving away after the handover from *your* business, you will be extremely busy. Beside all the work involved in moving your family and your home, and the problems you will be handling with your solicitor, bank manager, accountant, insurance broker, surveyor and stocktaker to effect the transfer, you will also be preparing for the business to carry on trading under your ownership.

There is a great deal that can be done before this. If you have built up your model in detail, you will know a great deal about the way you propose to operate the business, and this will make it easier. If from the time that you first definitely made up your minds to seek self-employment in this industry you have found out as much as you possibly can about it, and have prepared yourselves by acquiring the skills and knowledge you will need to plan and run the business, then it will be considerably easier.

If the business has been reasonably successful under its previous ownership, you should not be in too much of a hurry to make any changes you have planned. Find your feet first and settle yourselves in; win the confidence of customers and staff, have a long hard look at your new business from the inside. Before implementing any changes, ask yourselves:

- Who will be affected by this change?
- To what extent will it improve the business?
- What problems could it create?
- Is it worth-while to make this change now?

Summary of the steps

Finally, here is a summary of the steps it is recommended you should take in preparing to set yourselves up in your own business in the hotel and catering industry:

Step 1

Consider the various options that are open to you, and decide if you really want to pursue a future in this industry.

Step 2

Build up a model of a business that closely matches your own particular requirements, and is within your resources; then test its viability.

Step 3

When you are ready to commit yourselves, actively start your search for a business that will match your model closely enough for you seriously to consider its acquisition.

Step 4

When you think you have found it, look at all the information you have available, assess its viability, make certain that all of you are agreed on the choice, and then take the plunge.

Step 5

Make sure the finance is secure, make your offer, and using all the professional help that you can obtain, negotiate the purchase and prepare for the handover.

The Hotel and Catering Industry Training Board

The HCITB can help you in a number of different ways. It publishes a wide range of hotel and catering books, training manuals and audio visual material. These include:

Small Business Information Pack, a special introductory folder providing a range of useful and relevant information to help those seeking a purchase.

Small Business Training Aid, a folder packed with useful information in a form easy to assimilate and use. Includes: *Winning More Customers*, *Simple Accommodation & Booking Systems*, *What Price Should I Charge?* and *Employing People*.

Marketing for Publicans, this book will enable the reader to

analyse his/her business, explore the market and understand the customers and their needs. Basic marketing skills are clearly explained.

Employing People in the Licensed Trade, this book, arranged in sequence from the time that the licensee first decides to employ staff, explains legal requirements simply and concisely and also gives advice on good personnel practice.

Marketing for Independent Hoteliers, packed with useful hints on what a particular hotel can offer and discovering what various types of potential customers might be seeking and how they can be approached. Easy to follow and jargon-free, includes many checklists.

Further details, including prices, are available from HCITB regional offices.

HCITB courses

A substantial programme of direct training courses and seminars is offered at regional offices and other suitable locations throughout the country.

These include a series of small business courses designed to help those hoping to run their own business in the industry. The particular emphasis is to ensure delegates understand what is involved *(Stage I)*; receive advice on how to find the right business for them *(Stage II)* and finally, sponsored programmes for those committed to buying a business *(Stage III)*. These are supported by individual courses covering *Winning More Customers*, *Employment Legislation*, *Health & Safety at Work* and, in Scotland, courses on various aspects of the licensed trade.

HCITB regional offices

1 London
PO Box 18, Ramsey House
Central Square, Wembley
Middlesex HA9 7AP
Tel: (01) 902 8865

2 South & East
2nd Floor, Ansvar House
31 St Leonards Road
Eastbourne BN21 3UU
Tel: (0323) 20579

3 North West
The Graftons
Stamford New Road
Altrincham WA14 1DQ
Tel: (061) 928 2761

4 Scotland
10 Magdala Crescent
Edinburgh EH12 5BE
Tel: (031) 337 2339

5 West & Wales
West Wing, Prudential Building
Wine Street, Bristol BS1 2PH
Tel: (0272) 24074

6 North East
2nd Floor, Stonebow House
The Stonebow
York YO1 2NP
Tel: (0904) 26134

113